MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

INVESTMENT COMMITTEE

OPEN SESSION

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9:15 A.M.

JAMES F. PETERS, CSR
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## A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Henry Jones, Chairperson

Mr. Richard Costigan, Vice Chairperson

Ms. Margaret Brown

Mr. John Chiang, also represented by Mr. Steve Juarez

Mr. Rob Feckner

Mr. Richard Gillihan, also represented by Mr. Danny Brown

Ms. Dana Hollinger

Ms. Priya Mathur

Mr. David Miller

Mr. Ramon Rubalcava

Mr. Bill Slaton

Mr. Theresa Taylor

Ms. Betty Yee

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Charles, Asubonten, Chief Financial Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Matt Jacobs, General Counsel

Mr. Eric Baggesen, Managing Investment Director

Ms. Natalie Bickford, Committee Secretary

Mr. Dan Bienvenue, Managing Investment Director

Mr. Matt Flynn, Interim Chief Operating Investment Officer

A P P E A R A N C E S  C O N T I N U E D

STAFF:

Ms. Alison Li, Investment Manager

Mr. Simiso Nzima, Investment Director

Ms. Christine Reese, Investment Manager

Ms. Anne Simpson, Investment Director

ALSO PRESENT:

Mr. Al Darby, Retired Public Employees Association

Mr. Allan Emkin, Pension Consulting Alliance

Ms. Steve Foresti, Wilshire Associates Consulting

Mr. Andrew Junkin, Wilshire Associates Consulting

Mr. George Linn, Retired Public Employees Association

Ms. Mikaylee O'Connor, R.V. Kuhns

Mr. Rob Palmeri, R.V. Kuhns

Mr. Steve Silberstein

I N D E X

P R O C E E D I N G S

CHAIRPERSON JONES: I'd like to call the Investment Committee meeting to order. First order of business is roll call, please.

COMMITTEE SECRETARY BICKFORD: Henry Jones?

CHAIRPERSON JONES: Here.

COMMITTEE SECRETARY BICKFORD: Richard Costigan?

VICE CHAIRPERSON COSTIGAN: Here.

COMMITTEE SECRETARY BICKFORD: Margaret Brown?

COMMITTEE MEMBER BROWN: Here.

COMMITTEE SECRETARY BICKFORD: John Chiang represented by Steve Juarez?

ACTING COMMITTEE MEMBER JUAREZ: Here.

COMMITTEE SECRETARY BICKFORD: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good morning.

COMMITTEE SECRETARY BICKFORD: Good morning.

Richard Gillihan?

COMMITTEE MEMBER GILLIHAN: Here.

COMMITTEE SECRETARY BICKFORD: Dana Hollinger?

COMMITTEE MEMBER HOLLINGER: Here.

COMMITTEE SECRETARY BICKFORD: Priya Mathur?

COMMITTEE MEMBER MATHUR: Here.

COMMITTEE SECRETARY BICKFORD: David Miller?

COMMITTEE MEMBER MILLER: Here.

COMMITTEE SECRETARY BICKFORD: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Good morning. Here.

COMMITTEE SECRETARY BICKFORD: Bill Slaton?

COMMITTEE MEMBER SLATON: Here.

COMMITTEE SECRETARY BICKFORD: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

COMMITTEE SECRETARY BICKFORD: Betty Yee?

COMMITTEE MEMBER YEE: Here.

CHAIRPERSON JONES: Okay. Thank you.

The next order of business is Executive Report, Chief Investment Officer Briefing. Mr. Eliopoulos.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Good morning, Mr. Chair, and members of the Investment Committee.

We have several important agenda items on the agenda today, including an action item with respect to asset allocation, and a trilogy of information items on corporate governance, 6 a, b and c.

This morning I wanted to spend a few minutes talking about our senior leadership team in the Investment Office. I have devoted most of these morning discussions in the past to, you know, either market topics or portfolio allocation, or construction, or trend information in the recent past. By contrast today, and this morning, I wanted to highlight some important additions and changes to our investment team going forward.

I think, as this Committee knows, Investment Belief number 10 is one of my favorites, if not, you know my -- if I had to pick a favorite amongst the Investment Beliefs, it would be number 10, team work is needed to achieve our goals and objectives and essential for us to succeed as a team.

We manage a very large and complex portfolio with assets all over the globe. Over 70 percent of these assets are managed internally here in Sacramento. The remaining 30 percent, roughly are managed through a wide array of external partnerships. Looking -- looking back over the past 15 years, CalPERS has been able to fill leadership positions with a mix of internal talent, as well as attracting external investment professionals to CalPERS, a very healthy mix, I think, over that time period.

For example, global equity, which represents roughly half our portfolio in terms of assets has been managed by an internal team who's been to recruit and develop a set of leaders really a lineage for some that have been here over the course of the past 15, 16 years, a lineage that draws quite straight -- on a straight line from Mark Anson, to Christy Wood, to Eric Baggesen, to now Dan Bienvenue, a very cohesive succession over that period of dime.

Global fixed income and its related asset classes of inflation and liquidity, you know, represents roughly 30 percent of the portfolio, round numbers. And for those portfolios, we've had the able leadership of Curtis Ishii to lead that team for over 30 years. And there's more to come to later in my beginning talk this morning.

Real assets roughly, you know, 10 percent of the portfolio has had a very similar leadership approach since 2007, I would say, from when I started to now under Paul Mouchakkaa's leadership.

As the Committee is aware, we're currently recruiting for a leader for our Private Equity Program which represents the remaining 10 percent of the portfolio in terms of assets, and we expect to have that settled by this summer. Sarah Corr is doing a very effective and able job in leading that group, in this interim period.

That survey now brings me to some, you know, newer developments that we've announced recently. And one I'd like to announce publicly today. In terms of some recent announcements, first, we have announced the selection of Beth Richtman as our inaugural, or first, Managing Investment Director of Sustainable Investments, a new leadership position reflecting the growing importance of sustainable investment topics in our portfolio and really among institutional investors across the globe.

Beth brings an investment background, including over five years in our Real Asset Program, as well as a deep understanding and passion for sustainable investing to our team. She brings an added dimension to the team, complementing and augmenting the deep, deep domain expertise of Anne Simpson on all topics with respect to governance and sustainability to lead now our efforts to integrate ESG considerations into our decision making. Beth will transition into this new role by the end of this current month.

Second, we have announced the selection of Elisabeth Bourqui as Chief Operating Investment Officer. Elisabeth will start a month from now, May 14th. Actually, her first date here will be the Investment Committee meeting that Monday, May 14th. She's not here in the audience here today. She's in Zurich, Switzerland, hopefully maybe watching on the -- on the webcast.

Elisabeth is the third of three successive external hires to this key leadership role of COIO, following Janine Guillot and Wylie Tollette. She brings a remarkable personal and professional set of global experiences to CalPERS. She grew up, and having grown up and moved with her French parents, around the globe growing up, including significant time in Europe, the

Middle East, and Asia. Elisabeth earned her Ph.D. in mathematics in Switzerland, and served in a succession of roles in investment banks in Europe, Japan and Canada.

She is currently the head of pension assets and liabilities at ABB, the large public company, technology company, based in Zurich, Switzerland. She speaks French, German, English, and Japanese fluently.

I think she will bring all of this experience to bear on behalf, and for the benefit, of CalPERS going forward. I'm very excited to introduce her to the Investment Committee next month. Her first official day, as I said, will be the Investment Committee meeting next month. At this point, I'd also like to thank very much Matt Flynn for his very able, and very seamless, and very experienced leadership during this interim period. Matt, thank you so much.

Last, I said I would return -- one, I would return to Curtis Ishii, and I would have a new announcement to make. And I suppose we all knew that there would be a day for an announcement like this at CalPERS.

After more than 40 years at CalPERS, and as the leader of our Fixed Income Program since May of 1999, Curtis has decided it is time to retire. His last full day in the office will be in May, but he'll be available, as needed, during the transition, actually May 8th will his last full day in the office, and his retirement date will be in July of 2018.

Arnie Phillips, you know, one of the great team members Curtis has recruited and mentored here at CalPERS for, you know, since 1993, an Investment Director in our Global Fixed Income will act as the Interim Investment -- Managing Investment Director during this interim period. And we will begin an immediate search period for the MID position going forward for global fixed income.

A few words if I may on Mr. Curtis Ishii. I have a few things I want to say. Mainly, I want to say how much respect I have for him and his career of remarkable public service to CalPERS on behalf of all of our beneficiaries. A 40-year career dedicated to the public good is rare in public service. He, in addition to dedicating really his -- his professional life to the -- to the good of the public and our beneficiaries, he has been a mentor, a peer, a friend to so many of us here at CalPERS and within the Investment Office.

He's built a truly great team. In addition to this remarkable run of public service, Curtis is an investor's investor. He's built -- within this public sector atmosphere, an environment that CalPERS lives in, he's built a bottoms-up, fundamental, active portfolio stacked with people of talent and missionary zeal for earning risk-adjusted returns for CalPERS and our beneficiaries.

A few notes on Curtis as an investor. And I'm summing up here just to give a heads up. But, you know, over the span of Curtis's investment career, CalPERS has weathered a number of storms, and he's been at the center of guiding and steering the ship during this.

To tick off just a few of the major ones. You know, in 1989, the crash of the high yield bond market; the so-called great bond market massacre of 1994; the Asian financial crisis and Russian default crisis of '97 and '98; the dot-com bubble and accounting scandals of 2000 through 2002; the global financial crisis of 2007/2008; the European debt crisis; the U.S. debt ceiling crisis; the U.S. credit rating downgrade from 2010 to 2011; the Taper Tantrum of 2013; and the -- you know, the steep correction in the Chinese stock market in 2015.

Curtis has always been at the center of advice for the investment team for Chief Investment Officers over and over. And having served with him from 2007 and beyond to today his advice, and counsel, and recommendations are respected and have provided great leadership to CalPERS over the years.

Last, and I think this is the way Curtis would probably like a comment to start and finish is the numbers. In addition to all this leadership and energy and vision that he's brought to his team and the Investment Office, Curtis has always focused on the numbers. And looking back from the, you know, time of his official leadership of the Global Fixed Income Program, you know, some 20 years ago, the Global Fixed Income Program has earned an annualized return of 6.25 percent, which exceeds the annualized benchmark by 58 basis points over that same time period.

This outperformance in excess of, you know, what we otherwise might have received from our benchmark results in approximately $4.3 billion of excess dollar return over -- as I said, over and above our program benchmark during his leadership.

I can't thank him enough personally for his advice and counsel, and I think our whole investment team can't -- not only thank him for his leadership and his service, but wish him all the very best in an earned retirement.

So with that, Mr. Chair, those are my remarks.

CHAIRPERSON JONES: Okay. Thank you very much for that report.

And at this time, I'd like to take a moment of personal privilege. First, Curtis, on behalf of the

Investment Committee, we want to thank you for all your dedication and hard work over 40 years with CalPERS. We've had a very lengthy and impressive State service career. You led one of the largest and most fundamental asset classes, fixed income, on our behalf.

You assembled, mentored and established a terrific team of investment professionals. We always appreciated your advice, recommendations, and counsel.

Curtis, on behalf of the Investment Committee, we want to wish you a wonderful retirement life ahead. We will miss you -- miss your wisdom and experience. So congratulations, Curtis.

(Applause.)

CHAIRPERSON JONES: And second, Beth, on behalf of Investment Committee, congratulations on your appointment as Managing Investment Director of Sustainable Investments.

We look forward to working with you and your team that provides centralized leadership and sustainability, and environmental, social and governance issues for the entire Investment Office. You are leading the important work of integrating ESG strategies into our asset classes. Beth brings an investment background and deep experience with sustainable investment -- investing and ESG to this position.

So welcome to your now position, Beth.

(Applause.)

CHAIRPERSON JONES: And lastly, I would just like to acknowledge former Board Member Michael Bilbrey is joining us in the audience today.

Okay. Okay. With that, we will now move to the -- back to the agenda on consent items, action consent items. Do we have a motion?

COMMITTEE MEMBER TAYLOR: So moved.

PRESIDENT JONES: Moved by Ms. Taylor.

COMMITTEE MEMBER HOLLINGER: Second.

CHAIRPERSON JONES: Second by Mrs. Hollinger.

All those in favor say aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Seeing none. The item passes.

I've not received a request to move anything from the information consent items, so we will move to Action Agenda Item 5, Asset Allocation.

Mr. -- who is doing this one?

Mr. Eliopoulos.

CHIEF INVESTMENT OFFICER ELIOPOULOS: We'll give the team time to get here and approach, including our iron man, Eric Baggesen.

Take your time, Eric.

(Laughter.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: And I will turn this over to Eric to introduce the team and the agenda item. This is the first in a succession of asset allocation items on our affiliate funds to come over the next few months.

So with that, and having ate up the time to get you guys settled, I'll turn it over to Eric.

(Thereupon an overhead presentation was presented as follows.)

MANAGING INVESTMENT DIRECTOR BAGGESEN: Good morning. Eric Baggesen, part of the Total Trust Level Portfolio Management team.

Excuse me

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MANAGING INVESTMENT DIRECTOR BAGGESEN: We basically have the first in a series of agenda items that are coming up to you over the next couple of months.

Let's see if we can move this forward.

Yeah, it is turned on.

Can we advance the slide?

Yeah, there we go. Perfect. Thank you.

Anyway, over the next three months, we're going to be bringing to you a series of agenda items dealing were asset allocation elements related to the affiliate funds. The affiliates tend to get a little bit of short shift, given the size of the overall Public Employees Retirement Fund. And yet, this represents a pretty significant pool of assets, you know, up in the 15, 16 billion dollar size, which, you know, is a -- constitutes a very significant fund in and of itself.

But part of the fiduciary responsibility of the organization, and you as a Board, attaches to the guidance that we provide to these affiliate programs. What we're doing with this is attempting to work off of the information that was developed during the asset allocation work for the PERF. So we want to roll that information body, if you will, through the structure of the affiliates in as reasonably an expeditious manner as possible to try to retain the relevance of that data set attached to this.

For today, we've got the first of these sort of three items, as I say, that will be being brought forward. And this is the structure of the asset allocation for the Supplemental Income Plans. And again, these are defined contribution plans basically where members are choosing to save money in addition to the kind of retirement benefit that they may get as a defined benefit that they get as a public employee.

To help us do this work, we've enlisted the assistance of R.V. Kuhns, and R.V. Kuhns is an outside consultant firm that actually has a fairly deep, or very deep, I should say, expertise in the structure of defined contribution plans. That is one element that we do not think that we are particular experts at, because a defined contribution plan really constitutes financial planning for individuals in contrast to an overall structure of a plan like the PERF, for example.

So we basically make use of R.V. Kuhns' expertise to help bring context and relevance as to what's the right kind of a structure for individuals.

The information in front of you is going to be presented by Christine Reese, who is a Portfolio Manager -- or Investment Manager within the Global Equity team, and Alison Li who is an Investment Manager in the Trust Level Portfolio Management Team. I think we've got Dan up here as well.

And I believe we also have R.V. Kuhns in the, audience, if there are potentially any questions that would be asked of R.V. Kuhns.

But I think with that, I'm going to turn it over to Christine who's going to be bringing some context and background information on this structure of this plan to you.

INVESTMENT MANAGER REESE: Thank you, Eric.

So to start the presentation, I'll be reviewing the plans that comprise the Supplemental Income Plans, the investment menu design, and the investment reviews that have been conducted leading us up to this presentation.

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INVESTMENT MANAGER REESE: So let's see if we can get this to work.

Okay where am I supposed to aim?

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INVESTMENT MANAGER REESE: Thank you. And one more.

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INVESTMENT MANAGER REESE: Okay. Thank you. So starting on page five, this displays the three plans that are part of the Supplemental Income Plans program. The first is the Public Employees Deferred Compensation Fund. This is available to public agencies to contract for. This -- we have 800 employees -- 800 employers with about 27,000 employees participating in this plan and they have approximately one and a half billion dollars worth of retirement savings in this plan.

The contributions are pre-tax, and the contributions and investment earnings grow tax deferred. This is a 457(b) plan.

The second plan is the Placer County 401(k), which is a sister plan to their Deferred Compensation

Plan, which is also in our Deferred Compensation Plan. It is a 401(k), so it does need to be called out as a separate plan. It is small, but it is invested in the same manner as the Deferred Compensation Plan.

And then the third plan is a Supplemental Contribution Program. And this is available to State employees and members of the judge's and legislators' systems. This is an after-tax program, where the earnings are tax deferred. And in summary total, the program, we've got almost 1.7 billion in assets under management, and covering about 37,000 participants.

So moving into the investment menu, it's been designed in a tiered format.

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INVESTMENT MANAGER REESE: All right. Where do I point?

Okay. There we go. Okay. So it's been designed in a tiered format to provide options for participants that either have more or less investment expertise, time, or interest in managing their asset allocation. So on the left, tier one, is comprised of target date funds. These are custom age-based funds, where in the asset allocation, is managed throughout the life of the fund.

This is an option available to participants who, you know, would really rather not spend the time or energy managing their own asset allocation, or may not feel like they have the expertise.

Tier 2 is core funds. We have six broadly diversified index funds. And these are available for participants that want to invest all or part of their account and manage their -- manage their own asset allocation.

And then tier 3 is a self-managed account. And this is an option that employers and the program can contract for. This allows participants to invest in retail mutual funds and certificates of deposit, if they're looking for something that's outside of outside of our lineup.

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INVESTMENT MANAGER REESE: Delving into the investment funds that make up those tiers, on page seven -- so for tier 1 within the age-based asset allocation funds, we have 10 funds that tranche every five years. So the farthest dated fund is the 2055 fund, tranched every five years down to the income fund, which is the most conservative. With Tier 2, we offer diversified index funds within each market, so we cover U.S. and international equities. We have an intermediate bond fund, a short-term bond fund, a diversified real asset fund, and a cash fund.

And then as I mentioned for tier 3, we have a variety, hundreds, of mutual funds that are available to the participants, as well as certificates of deposit.

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INVESTMENT MANAGER REESE: Moving into a little bit more detail on each of these tiers, within the target retirement date funds. So the mechanics are that the participant selects the fund near -- with a date nearest their estimated retirement. And the asset allocation is managed for them. The investments are funds that we also utilize for the core funds. So the funds themselves are broadly diversified.

We have a glide path associated with those funds, and Alison will speak to that in much more detail in her section of the presentation. And that glide path is based on our plan participant demographics.

And then those funds are rebalanced using a very disciplined process. We advance the glide path annually, and we rebalance the individual funds back to policy allocations every quarter.

So this is a really good option again for participants that want a very disciplined process for their asset allocation. Both industry usage and CalPERS usage is trending upwards. We have 60 percent of participants are 100 percent invested in the target date funds. Although they represent only 46 percent of balances, 60 per -- 67 percent of contributions are being directed toward the target date funds.

The target date funds have also been set as the qualified default investment alternative. So if a participant joins the program and fails to make an investment selection, they will be placed in a target date fund according to their birth year.

And then through this review, it is appropriate now at this time to add the 2060 fund. One thing I wanted the mention with regard to the tiers as well. Although, we've set up the design of the menu to be tiered, participants aren't constrained to any one tier.

So if they would like to have part of their balances in target date funds, and then manage part of their allocation, or potentially use the self-managed account, they can do so.

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INVESTMENT MANAGER REESE: On page nine, a little bit of information about the core funds. It's pretty much the opposite of the target date funds, there is no glide path. The participant is fully responsible for maintaining and managing their asset allocation over time. As I mentioned, within each of the index funds, there is broad diversification across the market, so they're not constrained to say a small cap, mid cap, large cap in the U.S. market. We have a broad Russell 3000 fund that they can invest in.

Participant usage is trending downward, 52 percent of balances and only 33 percent of contributions. And again, this is what we're seeing in the industry as well.

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INVESTMENT MANAGER REESE: On page 10 on the brokerage account, just really want to point out a couple of things. One is that although participants can utilize this window, these are retail mutual funds, and they do have much higher investment management fees. And that participant usage within our program is in line with the industry at about two percent.

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INVESTMENT MANAGER REESE: So moving into some of the investment reviews that have been conducted leading up to this point. In 2013, we worked with RVK. We made some fairly comprehensive changes to the program. We moved from a mixture of active and index to 100 percent index. We closed the balanced funds that we had and reduced our fund lineup from 24 funds to 16 to provide some simplification for the participants. And at that point in time, we also reviewed the glide path, and opened the 2055

Fund.

Through this review, we didn't need to make any wholesale changes, but we did want to look at a couple of the investment options to ensure that they were still appropriate for the lineup. We looked at the cash fund and the bond fund. Now, the cash fund we looked at, as cash rates had been so low for so long after the great financial crisis, we wanted to make sure that this was still an appropriate option.

And after our evaluation of what the market had to offer, and the various risk return scenarios, we determined that this -- that the cash STIF fund is still appropriate for the lineup. As well, we looked at the fixed income option. Our investment manager had a couple of different offerings, one with more corporate bonds than government bonds. Again, through that evaluation, we made a determination that that really moved us away from our index and our philo -- our indexing philosophy, it had some active management, and so we decided that the bond fund -- the intermediate bond fund we currently have is still appropriate.

So those are the end of my prepared remarks. Alison will be covering the glide path and the conclusion of the presentation, but I'm happy to answer any questions.

CHAIRPERSON JONES: Why don't we finish the presentation and then we'll come back with questions.

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INVESTMENT MANAGER LI: Good morning. As Christine just presented, the tier 1 target retirement date fund that utilized the glide path design is our qualified default investment alternative. So what are the advantage of the glide path design.

So, here, if you look at slide 13 --

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INVESTMENT MANAGER LI: -- here are two glide paths. The main goal of a glide path is to adjust asset allocation according to where the participants reside according at the -- according to the timeline at the end. So there are two distinctive periods along this timeline separated by the date of retirement. During the accumulation period, that's when participants work and save to accumulate the financial assets.

Then after retirement, they will withdraw from financial assets. Finance theory indicates that at the beginning of the accumulation periods, when the participants' human capital are much higher than their financial capital, and their investment horizon are long, they have higher risk tolerance and gain more utility from exposure to growth risk.

So that formed the plateau phase when the allocation to risky assets here measured as total equity plus real assets is the highest. So as time went by, participants gradually approach retirement, their human capital decreases, financial capital increases, relative to each other.

The glide path will diligently reduce exposure to risky assets in the risk controlled framework forming the de-risking phase. In the end, the glide path will arrive at the landing phase. That's when the human capital has been depleted, and the participants have low risk tolerance to gain more utility from having liquidity in their financial assets. That's the period when the allocation to risky assets is the lowest.

So each glide path will have the same shape, but there could be a significant difference which is, is it optimal to glide to the landing phase at the point of retirement, which is the glide-to approach represented by the red line, or is it optimal to glide through the retirement date and land sometime afterwards, which is the glide-through approach represented by the blue line.

So the level and the length of the plateau phrase, the slope of the de-risking phase, the level and the starting point of the landing phase varies among glide paths. So those are the basic elements of the glide path.

The next slide just lists the utility of the glide path.

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INVESTMENT MANAGER LI: Then we come to our consultant, RVK stochastic optimizing process -- optimization process in designing the glide path.

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INVESTMENT MANAGER LI: So during the accumulation period, RVK projected a balance accumulation by collecting the following input. They collect inflation risk from macroeconomic forecasting model. The expected investment return is adopted from 2017 CalPERS asset liability management process. And salary growth is collected from 2017 CalPERS experience study.

And the participant contribution is based on the calendar year 2016, CalPERS SIP full 57 plan participants' data. Then during the distribution period, RVK will project income adequacy by: modeling an annual income replacement goal; the household income resources; the annual distribution pattern, based on CalPERS data, public government data, and the recognized retirement studies; and the modeling of inflation and investment returns carried over from the first period.

So after completely modeling out the two periods, RVK's stochastic optimization process will try to build a glide path by either maximizing replacement income without significantly decreased market -- the portfolio volatility or by minimizing portfolio volatility without significantly decreasing replacement income in each run of 2000 iterations.

And also, besides these two measures, a couple of other risk return measures also constantly measured to prevent deterioration. So after each one, the process will change or modify the glide path according to the feedback. In the end, one glide path will be chosen based on the overview of all the risk return measures. So that's the RVK process.

In choosing the glide path, then RVK looked at if you look at -- sorry.

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INVESTMENT MANAGER LI: Slide 17, RVK look at our participant distribution patterns to answer the glide-to versus glide-through question. Although there's a perfusion of data here, but we think it's worthwhile to present all the A, B, C and D, because they add up to 100 percent. In cases when they do not add up with 100 percent, that's because of rounding error.

So if you -- for meaningful information, if you look at row A, the first full column, it says the majority of participants actually did not make any distribution before the age of 70. But if you look at the last column of row A, it says 31 of the participants did make some distribution after age of 65.

Secondly, we think this data tells us the importance of separating participants fully depleted, which is they're separated in rollover, which is row C, and full cash distribution in row D, because research indicates participants will opt out for rollover remain invested in capital markets, including a higher allocation to equity.

So those two -- three rows of data indicates a glide-through design is a better fate for the CalPERS SIP participants.

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INVESTMENT MANAGER LI: So the next slide lists the input into the RVK optimization process based on their analysis of our participants'data. So for our typical median full career, CalPERS SIP participants, he started investing at age of 23 with a beginning balance of 1,800, and contribution rate is from 1.8 percent to 3.2 percent per year. It's two household member. They will retire at age of 58, start withdraw from the SIP plans at age of 65. They have a 81 income replacement goal.

The period estimated is 36 plus years, that's from 23 to 58. After retirement, the length in retirement is depending on the model for household life expectancy.

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INVESTMENT MANAGER LI: So slide 20 present the glide path recommended by RVK, based on their analysis of the input and their stochastic optimization process, this glide path is built to provide a tradeoff between improving replacement income in retirement, and protection against significant drawdown due to market turbulence.

So this have a longer plateau phrase, and also it's adopted a glide-through approach. So it will land at the landing place after retirement.

And on the next slide --

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INVESTMENT MANAGER LI: -- shows the recommended glide path within the Morningstar Universe. As you can see, the recommended glide path is within the first quintile of the -- as to exposure to risky assets. And it's length is longer by under five years. We think this is a worthwhile tradeoff, because typical S&P participants is more risk tolerant because of their pension payment from PERF.

And on the other hand, the Morningstar Universe is a collection of off-the-shelf product, which is not tailor made for the participants' demographics. And also, most of the glide path within the Morningstar Universe have an active component, which means either the weights or the underlying portfolio representing the asset classes are actively management -- managed.

Comparatively, our SIP plan are passively managed. So the Morningstar Universe could be more risky than it's presented here.

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INVESTMENT MANAGER LI: The next two slides we'll compare the retirement income based on the recommended glide path, as compared to the current glide path. So the recommended glide path have a better retirement income in terms of it will have a higher ending balance, a higher annualized return, and a lower probability of shortfall. The replacement income from SIP plan increased from 4.3 percent to 5.8 percent. And, of course, this is at the expense of a slight increase in annualized volatility, increased from 10.4 percent to 13.6 percent.

So pending the approval of the new recommended glide path, the implementation stamps will follow. We'll update the Investment Policy, and conduct communications with participant and employers, open the 2016 funds, and the new glide paths will be effective on October the 1st, this year.

So that concludes my part of the presentation, and we're ready to answer questions.

CHAIRPERSON JONES: Okay. Yes, I have a general question first before we get into the specifics. And that's dealing with our fiduciary responsibilities -- the Board's fiduciary responsibility. And I'm not so sure that that question can be answered by any of you here. But when I looked at the presentation and you talked about, first of all, the participants have options to select.

So I understand the PERF fiduciary responsibility, because we make all those decisions. But now this is a shared decision-making process with the participants also making it.

The second part of that question is when I looked at the glide path and the universe, the recommendation is even more riskier than the universe when you just said that the universe is even more risky than presented.

So why are we going beyond the universe in this recommendation when it's already more risk when you just said that the universe is even more risky than presented.

INVESTMENT MANAGER LI: The -- I'm sorry, like maybe I was not clear. The universe it could be more risky, but it's not shown on the graph here, because graph here just showed the target static allocation to risky assets. But the many -- many of the plans within the universe, they actively manage that target. And also, the portfolio representing the target is actively managed.

Well, we do not have that active component, because when you introduce an active component, the volatility will be much higher. But that information is not shown on the graph.

CHAIRPERSON JONES: Okay. That answers part of the question.

MANAGING INVESTMENT DIRECTOR BAGGESEN: Let me -- let me add a little bit of context also to Alison's comments. In other words, the implication of what Alison just said -- I don't know if we can flip back to that chart, so that everybody can see it basically.

The implication of what Alison just said is that the area covered by the blue shading around the sort of mean element on this is potentially wider by the effective asset allocation activities or active risk management for example than is -- would be stated just by the averages attached to this. So you'd probably have a -- potentially a wider distribution of outcomes, so that's not reflected in that blue shading.

The other thing that's most telling about this though is that when R.V. Kuhns designs this, they operate with knowledge that the beneficiaries of this also have a defined benefit.

If your Fidelity, or your Vanguard, or, you know, some other organization that is constructing a glide path on a 401(k) DC plan, they have to treat that like that's the only retirement plan that someone has. So the element of replacement income that these represent to our beneficiaries is significantly less, and they do not have market risk attached to that defined benefit. That market risk is being borne basically by the employers on their behalf.

So in the judgment of R.V. Kuhns, that enables this plan to carry a little bit more risk on the defined contribution side than would potentially otherwise be advisable. And I think that that's -- I think that's really the context around this, that lets them arrive at this conclusion. It's that full understanding of that demographic information.

CHAIRPERSON JONES: Okay. And the fiduciary question, is Matt around?

MANAGING INVESTMENT DIRECTOR BIENVENUE: I'll see if I can take a crack at that, Mr. Jones.

Dan Bienvenue, Global Equity.

From a fiduciary standpoint, this critical component here, as you say, the participants select. So the -- you know, the -- what they select is kind of on them. The critical component for us and for your fiduciary duty is that what we offer is prudent. So as long as the offering is considered prudent, then you're covered from a fiduciary standpoint.

CHAIRPERSON JONES: Okay.

MANAGING INVESTMENT DIRECTOR BIENVENUE: Does that help?

CHAIRPERSON JONES: Oh, no. Steve was first. I'm sorry. How did that happen? Okay. Steve was first. Yeah, and you're third.

Mr. Juarez.

ACTING COMMITTEE MEMBER JUAREZ: Yeah. Thank you. And it -- that makes perfect sense to me, the fact that you have folks that have other sources of retirement income, and therefore you can afford to take -- be a little riskier with this portfolio. So I get that, and I appreciate the -- also the fiduciary arguments.

My interest is -- comes from a perspective of someone who's helping get a 401(k) program off the ground for the State called Secure Choice, but more familiar now we're calling is CalSavers. And so what I'm hopeful is that we can get information from you all, recognizing that we have different audiences. The folks that we will likely help invest don't have the same resources that the folks that you assist do.

But we -- I think we can learn a lot. And so my hope is that especially from your 2013 study when you looked at what -- what you decided to offer, and I'll look to Marcie to help gather that information for us. And then maybe even arrange for a meeting, if possible, so that we can get the best advice as to how you put your program together, and hopefully gain from that expertise.

So that would be my request personally just to the folks at the table.

MANAGING INVESTMENT DIRECTOR BAGGESEN: Yeah, I think, Mr. Juarez, that basically, you know, to the extent if CalPERS is going to construct a plan that would represent the general public in contrast to the beneficiaries of the Public Employee Retirement System, you know, that again we would -- we would reach out to an organization, such as R.V. Kuhns, that has real expertise in that arena. You know, we do not profess to have that individual financial planning expertise. And that's really what the reason for bringing in an organization that has a much deeper experiences in that arena.

And I would suggest though that probably -- you know, and I'm only guessing at this point, but the outcome that you would see of that analysis would look more like that Morningstar Universe, because again you would not be able to have that potential risk tolerance that engenders from the participation in the PERF.

But certainly, we can -- we can arrange all that information to happen and bring you through the work that was done as this plan was restructured and simplified in 2013.

ACTING COMMITTEE MEMBER JUAREZ: That would be great.

MANAGING INVESTMENT DIRECTOR BAGGESEN: We can revisit all of that for you.

ACTING COMMITTEE MEMBER JUAREZ: Thank you.

CHAIRPERSON JONES: Okay. So the takeaway is that you will coordinate the meeting with the consultant with the Treasurer's office.

ACTING COMMITTEE MEMBER JUAREZ: That would be wonderful. Thank you very much for that.

CHAIRPERSON JONES: Okay. Thank you.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Thank you, Mr. Chair. So I have a few questions. First of all, I appreciate the presentation. And I'll start off with, I've all -- I've had concerns with this program over the years. I'm not sure why you have a bifurcated system where State employees are in one plan and Placer County is in the other, and why we're picking up Placer County's cost, and why Placer County can't actually do this themselves?

So, I mean, there's a bigger issue to have, because I'm actually going to get into some stuff on Placer County.

Voya is the provider, is that correct?

INVESTMENT MANAGER REESE: Voya is the third-party administrator for the program.

VICE CHAIRPERSON COSTIGAN: Okay. And so I'll just talk as it relates to my experience. So Nationwide is the provider for the State's 401/457 Supplemental Plan, which is the same one. So to make it clear, State employees don't have access to this program. And we're actually giving county employees some benefit that our other State workers don't get, which I'm still trying to figure out why we do this. This has been an historical issue.

Voya is the one that sets that -- so similar -- to Schwab has index and age-based funds -- or Nationwide, that you can pick. And then you run the self-directed. And what I believe CalHR does is then contract with Schwab. And Schwab runs the self-directed account, which is actually where most of my funds are. And then you run your financial planning through the Schwab Financial Services.

Okay. Does Voya do that for Placer County's employees? Is that what -- or this -- the other consulting firm. So I'd go in, I've hired a financial planner through Schwab that looks at all of my assets and we run my plan.

So does Voya do that?

INVESTMENT MANAGER REESE: No, so this program doesn't currently have managed accounts as part of the program.

VICE CHAIRPERSON COSTIGAN: Self-directed. There's a --

INVESTMENT MANAGER REESE: So we have -- we've contracted through Schwab to offer the PCRA, Personal Choice Retirement Account. That's the self-managed account. But Voya does not provide what are also called managed accounts for participants, in terms of giving advice and actively managing their account across allocations.

VICE CHAIRPERSON COSTIGAN: Which against starts begging the question, why are we doing this in Placer County and not just contracting directly, or why aren't we bringing in Savings Plus for the State into Cal -- I see Eric want's to answer that.

MANAGING INVESTMENT DIRECTOR BAGGESEN: Yeah. Could I actually suggest, the questions that you're raising also relate to your fiduciary responsibilities --

VICE CHAIRPERSON COSTIGAN: That's why I'm about to get to.

MANAGING INVESTMENT DIRECTOR BAGGESEN: -- in order for structuring this plan But for the Investment Committee basically the discussion today is really around the asset allocation. I think that to get into the other element of the plan, what the administrator does, the costs of the plan, a number of other dimensions, that's actually a discussion for a different venue than the Investment Committee. I think that that legitimately belongs potentially in the CFO's Committee, in the Finance and Admin Committee.

So I think that that's a piece of -- a body of information that's worth exploring, but I don't think we're ready to answer that information today, because again, that's not the dimension that we've done work on.

We've really constrained this to just the structure of the asset allocation, Mr. Costigan. And I'm not answering your question, but I'm hopeful that --

VICE CHAIRPERSON COSTIGAN: I would say with all due respect, I have difficulties voting on something without having the holistic view, because your asking me to vote on a plan that may impact my fiduciary obligation, which sort of leads to the questions I think Mr. Jones raised.

Placer County on its website really makes this about CalPERS, which I have some significant concerns about. Let me just quote from them, "As the largest pension provider in the State, you can rely on CalPERS to help you get the most from your retirement benefit. Your pension in the CalPERS 457 Plan are designed to complement each other". So how are we complementing the two plans?

INVESTMENT MANAGER REESE: So I'm not sure if they show that information on both their 401(k) website and the 457. But in the 457, they are contracted with us as are all of the other employers. The 401(k) plan is a separate plan. So I'm not sure if they make those same claims on the 401(k) side, but they are the plan sponsor for that plan and retain fiduciary duty.

VICE CHAIRPERSON COSTIGAN: Except in their marketing materials, it appears to make us responsible for in fact, just as an aside, the website that they use is www.calpers457.checkappointments.com.

INVESTMENT MANAGER REESE: Right.

VICE CHAIRPERSON COSTIGAN: So who runs that plan?

INVESTMENT MANAGER REESE: So the 457, they are our participant in our 457 plan. On the 401(k) plan, they retain separate fiduciary responsibility, and they -- they -- the investment structure is the same for their 401(k) plan as it is for the 457, but it's not part of the 457 deferred comp plan.

VICE CHAIRPERSON COSTIGAN: Well, I'm just concerned about the way it's marketed.

And then just the last couple questions. Eric, I do appreciate you coming back and cleaning up the DB versus DC, because the problem with slide 18 - I was just doing some back of the math calculation - without your explanation, an employee that started in 1984 making $24,000 would -- after 36 years, would have had to make $63,513 with $233 monthly contribution at five percent to make 1.286 million 199 to account for 81 percent of their income.

That's the back of the math -- envelope, because the way this chart reads is someone starting at age 23, so you go back to 1982, plug in 24,000 -- I picked a random salary 24,000, applied COLA going across the federal calculation going forward to today, backing in with a five percent return, of this 81 percent replacement goal, what does the 401/457 on your glide path, what's the percentage that accounts for outside of the DB?

INVESTMENT MANAGER LI: It's 5.8 percent, if you adopted the current -- the recommended glide path. The 81 percent is a goal. So it's based on recognized retirement study, Aon Consulting Company and the Georgia State University. Basically, it looks at the consumption requirement of a person who's retired, who much income you need to replace your -- while you're working. And people recognize 81 percent is a reasonable goal.

VICE CHAIRPERSON COSTIGAN: I'm not -- and I'm not disagreeing with the 81 percent. What I was just trying to get at is as you're putting this out, I was just trying to back into a number. And so for this plan, I just want to make sure I heard this correctly, of that 81 percent, you're saying the 401/457 supplemental -- the Supplement Income Program only accounts for five --

INVESTMENT MANAGER LI: 5.8.

(Lights dimmed on the dais.)

VICE CHAIRPERSON COSTIGAN: Oh, look, we're having a SMUD problem.

(Laughter.)

VICE CHAIRPERSON COSTIGAN: 5.8 percent.

INVESTMENT MANAGER LI: Yes, yes.

VICE CHAIRPERSON COSTIGAN: 5.8 percent of the 81 percent.

INVESTMENT MANAGER LI: Yes.

VICE CHAIRPERSON COSTIGAN: Okay. So the majority of the --

INVESTMENT MANAGER LI: No, sorry. It's 5.8 percent of your income that's like within the 81 percent.

VICE CHAIRPERSON COSTIGAN: Yeah, correct. So of the 81 percent replacement income, 5.8 percent of it comes from this voluntary 401/457. So, in reality, 75 percent of someone's income under that is still coming through a DB.

INVESTMENT MANAGER LI: Yes, yes.

VICE CHAIRPERSON COSTIGAN: Okay. Thank you.

CHAIRPERSON JONES: Mr. Costigan, maybe when the lights dim, your time is up.

(Laughter.)

VICE CHAIRPERSON COSTIGAN: I know.

CHAIRPERSON JONES: Okay. Before I call on Ms. Mathur, I just want to respond to Mr. Baggesen's comment. Any fiduciary responsibility discussion around this item or processes around this should come back to the Investment Committee, okay?

All right. Mrs. Mathur.

COMMITTEE MEMBER MATHUR: So I think you've done a really good job of addressing the risk observations that the consultant -- the Board's consultant raised. And specifically the three things that I heard you say, and correct me if I've misunderstood, is one in the ways that our members are different, and therefore can tolerate a slightly -- a delayed glide path down is when they have a defined benefit plan to rely on. And so this is supplemental income not the core of their retirement savings.

Two, they tend to make withdrawals later than perhaps other populations, and probably it's a result of there having a defined benefit plan.

And three, that we have an indexed approach to these funds as opposed an active management approach. So the Morningstar population does not -- or universe does not reflect sort of the heightened risk that might be associated with that active management.

Did I capture that correctly?

INVESTMENT MANAGER LI: Yes, exactly.

COMMITTEE MEMBER MATHUR: Okay. Thank you.

So then my final -- then I do have one question, and that is why, with these funds, do we plateau at the very end? My guess -- my suspicion, and perhaps you can correct me if I'm wrong, is that people don't withdraw -- generally don't withdraw all of the money all at one. They're withdrawing it over time.

And so I just -- I guess my question is why doesn't this -- the curve -- the slope just become much flatter, but not completely flat once you hit sort of the first withdrawal date or the estimated first withdrawal date?

INVESTMENT MANAGER LI: Sorry, the distribution based on the -- our analysis of the distribution pattern, the withdrawal actually start at age of 65. This is like for a typical median participant. So basically, the change is the current glide path you will de-risk at age of 30, and start withdraw at 60. So we have 30 years of de-risking. And the recommended glide path we actually -- you started de-risking at age of 40, and start withdrawing at 65, so 25 years of de-risking. So we think start de-risking at age of 40 is reasonable.

COMMITTEE MEMBER MATHUR: I don't argue with that. My question is really from the mo -- the first date of distribution or the assumed distribution date, at which point there's whatever that landing period or -- why does it have to be -- why are you recommending that it be flat? An I appreciate that's probably the market standard, but should it not be at a slight slope, because people are not, you know, taking distributions all at once on the first distribution date.

INVESTMENT MANAGER LI: Yes. Yes. That would just like increase the problem like multiple-fold of complexity.

COMMITTEE MEMBER MATHUR: Okay.

INVESTMENT MANAGER LI: Because if -- for designer glide path, we impose a lot of structure, we put in like three phase, like a linear de-risking, because if you want to just solve the question without structure, it will be like 40 years. And you have five asset classes, so that will be like 200 variables. And then you have to constrain their relative magnitude, so that will make the problem like in intractable.

COMMITTEE MEMBER MATHUR: Okay.

INVESTMENT MANAGER LI: That's why the early the design is put in three phrase --

COMMITTEE MEMBER MATHUR: Okay.

INVESTMENT MANAGER LI: -- and a linear decline. And you could chose like accelerated decline, but just based on a lot of simulation that has been done by the industry that's -- doesn't like improve the outcome. So this is kind of like the standard.

COMMITTEE MEMBER MATHUR: Okay.

MANAGEMENT INVESTMENT DIRECTOR: I was going to --

MANAGING INVESTMENT DIRECTOR BIENVENUE: Maybe I'll see if I can -- oh, I'm sorry, go ahead Eric.

MANAGING INVESTMENT DIRECTOR BAGGESEN: I was just going to add a little bit more context also to Alison's comments, if we just flip back to the -- oops, sorry, I went the wrong direction.

If we actually look at this, in other words what you see is basically you've had such a significant reduction in equity risk over this time period, that by the time point that you've reached this, that reducing the equity risk by one or two percent more over a yearly basis almost just adds layer of complexity to this that has probably a virtually de minimis outcome, given that at this point in time you've got two-thirds of this program or more into more or less fixed assets.

So I think it's such a diminishing payoff to adding that other layer of complexity that I don't think anyone honestly truly believes that it's probably even worth incurring the transaction cost to make that happen --

COMMITTEE MEMBER MATHUR: Yeah, fair enough.

MANAGING INVESTMENT DIRECTOR BAGGESEN: -- in contrast to just sort of locking that down into a terminal portfolio that can then operate, you know, relatively straightforward with very little actual rebalancing activity.

COMMITTEE MEMBER MATHUR: Okay. Thank you. THAT makes sense.

I'm sorry, did you --

MANAGING INVESTMENT DIRECTOR BIENVENUE: Yeah, the one -- I'm sorry, the one thing I would add to that and just really just expanding on what Eric was saying is that you'll notice that after the 2015, everybody goes into the income fund. So even though we had people that retired in 2010, 2005, you know, probably people in the

1990s, we still just go to an income fund and it just stays there.

COMMITTEE MEMBER MATHUR: Okay. Well, with that, I'm comfortable with the recommendation, so I would move staff's recommended glide path.

COMMITTEE MEMBER SLATON: Second.

CHAIRPERSON JONES: Okay. It's been moved by Ms. Mathur, seconded by Mr. Slaton.

Okay. Ms. Brown.

COMMITTEE MEMBER BROWN: Thank you.

I was looking at this agenda item, attachment 2, the Wilshire report, page three. And I just wanted somebody to address the three comments by Wilshire, because they say specifically they want to make sure that we understand several observations to ensure that the Investment Committee is comfortable with the risk characteristics embedded in the proposed changes.

So I want to make sure those were addressed that we understand what those mean?

We'll call on Wilshire to...

MR. FORESTI: Good morning. Steve Foresti from Wilshire Consulting. So I'll be brief, because I think you've touched on, in the discussion that's already taken place, the point that we were raising, which essentially is the portion of the glide path where the recommended allocation to equity and risk assets exceeds that Morningstar Universe.

And we set it up in several bullet points. But essentially, the first two bullet points lead to that observation. And the first bullet point would be in the early part of the glide path, the allocation to these growth assets is within the universe, but the high end of the universe. It then extends further along before de-risking, and as such, immediately prior is to de-risking and then early in the de-risking glide path is outside of that universe.

So as we noted in our letter, we're completely comfortable with the process, the inputs, the use of participant data, the sources for that information, the risk metrics that were assessed to understand the risk characteristics of different glide paths. We simply note that risk, because it's difficult from the information that we've seen to really understand the tradeoff for taking that peer risk.

And you can, I think, count on Wilshire for always pointing out the importance, value, and sometimes where peer universes really aren't that important. You should be investing for your specific needs. And the most important thing in this is the participant universe. That being said, you know, the key risk that staff pointed out in their cover letter to this agenda item is estimation risk, and the risk that the assumptions that go into the process are not realized through time.

So while the peer universe may have its flaws, we've kind of talked about some of them this morning, that serves as a very nice check of other institutions that are going through a process of striking asset class assumptions, of trying to understand risk trade-offs for meeting income replacement in the future.

And when you have an outlier point or a risk point that looks a bit different than that universe, albeit built on information and participant data that's specific to your objectives, it strikes us as a good check point to step back and really understand what is the tradeoff for accepting that risk. And to Ms. Li's point during the presentation, she made the comment that that risk is well worth taking.

Our only hesitation in having a full-throated recomm -- support of the recommendation is that that's just not a call that we feel like we were in a position to make, because we just didn't see the data on what the trade-off was. Said differently, if you constrained it to say inside of that universe, it's just unclear again just from the information that we've seen, what the sacrifice is in terms of those important risk metrics that were reviewed, I think, on page 22 of the deck.

So that was our perspective. We wanted to highlight the risk. It's not, in any way, to suggest that that risk isn't worth the trade-off, it's just that it is, I think, an important risk metric to consider.

COMMITTEE MEMBER BROWN: Thank you.

CHAIRPERSON JONES: Okay. Mrs. Hollinger.

COMMITTEE MEMBER HOLLINGER: Thank you. Yeah, I have that -- I shared same level of concern that we're going outside the risk metrics at a point where people have accumulated a significant amount of money. They don't necessarily have the time horizon. And so I was -- I wanted to know. And so -- and I didn't see the tradeoff or the rationale for doing that. Do you -- did RVK give us the rationale or are they here to speak to that?

CHAIRPERSON JONES: This is open.

There's a seat over here, also on the end.

MR. PALMERI: Thank you very much. My name is Rob --

CHAIRPERSON JONES: Your mic.

MR. PALMERI: Thank you very much. So my name is Rob Palmeri. I'm the head of the DC solutions group at RVK. Appreciate the opportunity to address the Board -- or the Investment Committee. With me is Mikaylee O'Connor who is also a member of the DC solutions group at RVK.

So there's been a good amount of discussion about risk, and that there is this -- so, yeah, the trade-off question. If you go to -- and I don't have a clicker here with me. But if you go to page 23 -- yeah, thank you. So here's your current statistics, right.

And so what we see here is that you've got an annualized return of 5.1 percent with a volatility currently of 10.4, ending balance of 212, replacement rate is 73 percent. You also have a probability of a shortfall of 83 percent meaning you run out of money. And you run out of money in that 13-year time horizon. You also have to -- a contribution level in order to bring that short-fall risk down of 3.6 percent.

The replacement right now currently that the plan is producing for income replacement ratio, which Mr. Costigan, we were talking a little bit about there, is 4.3 percent. So now if you go back to page 22, you'll see that these projections, based on the recommendation -- recommended glide path, improve. So you've got an annualized return that goes up significantly from 5.1 percent to 6 percent, so up 0.9 percent.

The volatility as we all -- as Wilshire pointed out, actually does go up to 13.6 percent. So this is going to be the tradeoff now. Your ending balance increases by 70,000 -- $70,000 to 285. Your replacement ratio goes up by three percent, so that's an improvement. That's a good improvement.

If you look at the probability shortfall, this is what's important, it goes down dramatically from 83 percent to 71 percent. So you improve your ability -- excuse me, you improve your shortfall risk significantly by 12 percentage points, and you extend your depletion rate out a year. So again, that shortens -- that improves.

Lastly, as you can see at the bottom, now you only need to -- an additional 1.5 percent in contribution -- additional contribution in order to even improve that shortfall risk dramatically.

Is there a question?

CHAIRPERSON JONES: Go ahead.

COMMITTEE MEMBER HOLLINGER: That's assuming that you hit your numbers every year.

MR. PALMERI: Well, over the long term, that's assuming over the life of a participant.

COMMITTEE MEMBER HOLLINGER: Right. But as you go longer out on the horizon, that volatility factor, in terms of loss and time horizon, I mean, that --

MR. PALMERI: Well, you get -- I mean, models are just so good, right?

COMMITTEE MEMBER HOLLINGER: Right.

MR. PALMERI: I mean, you're absolutely correct. I mean, there's a big assumption here. So Eric actually explained -- let me explain -- talk a little bit more about the risk component, because Eric explained the sources of income.

So you've got a defined benefit plan. And for some of your participants, we understand that you have Social Security even. So that's good. Those are two very good points that we -- or attributes about your plan relative to other plans, the universe of plans, that's a positive. And that affords you a luxury of taking a little bit more volatility risk in order to achieve a -- achieve a much better income replacement ratio over the long term.

The second point, which I don't think I heard anybody discuss, is that your time horizon, which I think you brought up, is that -- and I think Alison mentioned this earlier, for a retiree. So you retire at 58, but your participants don't even start taking it until 65. And then, actually the majority. I think it's -- I think it's about 70 percent, if I remember correctly, don't really start taking it until age 70, if I remember correctly.

So that time horizon is even longer, affording you more ability to take more risk.

COMMITTEE MEMBER HOLLINGER: I'm not uncomfortable with your projections during the early years. It's just later years. The outside --

MR. PALMERI: Yes. And your plan, specific to your plan again, participants are not taking distributions at retirement. They're 12 years down. I think it was 31 percent at 65. And then most of them, the majority, take it at 70. So that time horizon is longer, affording you the luxury of taking a little bit more volatility.

COMMITTEE MEMBER HOLLINGER: Thank you.

MR. PALMERI: Mikaylee, I don't know if you want to add to that.

MS. O'CONNOR: Yeah. I would also add that the median balance pre-retirement is 28,500. So this is -- even though our projections show 285,000, that is for a participant who starts at age 23, contributes and stays in the plan, and at the end, they should have, based on projections, that amount of money.

But reality is balances are -- median balance is 28,000. So we know participants are not using this as an income source. They're not needing it as an income source right now, at least current retirees. That may change as benefits change over time. And so they're not using it. They don't need the liquidity, so we think of that as capacity.

So they have -- they have capacity to take on more risk, because they're not needing that liquidity, because they're using other sources of income. And so that's based on the data. That's why we say, they can take on a little bit more, and have that as an additional buffer for whatever they are going to use their money for.

CHAIRPERSON JONES: Okay. Ms. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman. I really appreciate this discussion, and especially taking what we've learned and the data that we've learned through the asset allocation process with the PERF, and applying it here. And it seems to me that -- and some of these questions will be tempered by the recognition that the participants in these plans have DB benefits as well, but that the assumptions with respect to the beginning age of drawdown, as well as maybe some economic assumptions, I just want to be clear about it. When we have the PERF asset allocation discussion, it was really assuming that this sustained economic expansion would be coming to an end soon, and certainly affecting our return projections.

And I guess I'm wondering if applying that assumption to these plans isn't prudent to even think about increasing risk levels for these programs, even with the delayed drawdown by the participants.

MR. PALMERI: Did you want --

CHIEF INVESTMENT OFFICER ELIOPOULOS: I see Eric getting back up, and probably not a question four R.V. Kuhns. You know, the same capital market assumptions that we use for the ALM, we used for this. That's the first piece. And then the question I think you're asking then goes to really the timing -- the market timing of when these changes, you know, may be made or not.

And I think I'll let Eric answer that. But my -- you know, our approach generally is we have regular time periods to do these asset allocations. We do quite a bit of work to assess the market assumptions, and all the other factors into plan design, and we tend not to try and time the market in terms of when we think a downturn may or may not happen, especially as we set conditions for very long periods of time.

MANAGING INVESTMENT DIRECTOR BAGGESEN: Yeah. I mean, I think -- I think Ted is exactly right in that space. When we did this work on the asset allocation, we try to come up with a set of estimates that we think are averages that will exist over like a 10-year timeframe.

And obviously, you can have -- markets can boom, markets can bust in that time period. But particularly in something like a defined contribution plan, where people are contributing that money. In other words, even if the market blows off, that basically means that they're buying that risk exposure at a lower cost. So in reality, if you're in an accumulation phase, you would actually in -- you would prefer that the market not boom. You would actually prefer that the market blow off --

COMMITTEE MEMBER YEE: Right, right.

MANAGING INVESTMENT DIRECTOR BAGGESEN:

-- because you'RE buying assets for less expensive. So that is the time potentially to increase that risk.

Now, the market has not blown off yet at this point in time. But relatively small amounts of money in any of these plans would be shifting into risk assets at this -- at this exact moment in time. Instead, this is a program of averaging into the marketplace over a 30 or 40 year period. So I think you just have to retain that time context on this, and not necessarily anchor on what could or couldn't happen to the marketplace over a relatively short-term timeframe, because that just creates a degree of uncertainty that makes it almost impossible to make a decision over something that is unknowable.

You know, if -- you know, ultimately, the structure of this plan and the structure of the PERF, we are basically taking market risk, growth-related risk, on the belief that that risk will ultimately be compensated, and will ultimately be compensated even through the thick and thin periods where the market blows off. And then, you know, if the market never recovers after the next time it sells off, then that will be a poor bet to have made.

But that will be a bet that -- that condition would be basically setting up virtually the entire financial system for failure. So there's no way that we can run this program to try to succeed where the rest of the economy is basically failing. That's -- you know, we don't believe that that's an option that we have in front of us. And I -- personally, I wouldn't manage my own money in my own 401(k) program that way.

COMMITTEE MEMBER YEE: Right. Yeah. I'm thinking about obviously there's going to need to be a pretty robust communication component with the participants in these programs, and the employers. But -- and to Ms. Hollinger's point, I guess just some comfort. I mean, I'm personally of the belief that, you know, costs for living in retirement are going to be more challenged going forward. And so I think the assumption about later drawdown may not hold.

But to the extent that we do face a large downturn in the near term, and the impact on the near-term target date funds 2025, 2030, 2035, do you feel comfortable we have enough time to recover?

MANAGING INVESTMENT DIRECTOR BAGGESEN: Can we have the clicker for a moment.

I think if we -- if we actually look at the structure that's here. In other words, so what you see basically happening, right, the reason that these lines -- the black line lies outside the Morningstar experience, it obviously starts a little bit higher. So I think you probably have another, I don't know, maybe five percent equity exposure on top of the average in the Morningstar Universe right at the very beginning of the accumulation phase.

It's the lengthening of that plateau period though for another five years that causes that link, and then you have a steeper path. So this actually de-risks at a accelerated rate over the Morningstar Universe. So for the plans for the individuals that are closer to retirement, their plan, under this kind of a program, would be de-risking at a speed faster or a rate faster than would be if they were associated with the Morningstar average, let's say.

So I think that that plays into exactly the comment that you just made, Ms. Yee, you know, in that regard that, you know, if the market should fall apart, the people that are closer to needing that money would be basically having risk taken off the table at a rate actually faster than the Morningstar.

COMMITTEE MEMBER YEE: Faster.

MR. PALMERI: Yeah, absolutely. And you can see actually at the tail-end there, it gets very close to the Morningstar average, not that we're promoting that, but you could see that's where -- that's the -- that's the warning zone, if you will, near retirement and retirement. And that's where it's at it's lowest level with equity.

Also, one other thing, you mentioned adding -- the very nature of a DC plan adding -- you're actually dollar cost averaging in periods of underperformance. Don't forget also that the nature of a target date fund is rebalancing. So that's a very -- most participants -- not just your participants, most participants don't rebalance. They don't know enough to do that. But in the target date fund, you have that -- that mechanism.

COMMITTEE MEMBER YEE: Right. Thank you.

MANAGING INVESTMENT DIRECTOR BIENVENUE: Can I -- I just -- one thing I would -- can we go to slide 22 really quickly. And, Ms. Yee, you mentioned the need for communications. So there definitely will be a need for communication. Importantly, people can move themselves shorter or longer. If they choose to, our participants can do that.

But really importantly, I just want to mention remember our Investment Beliefs, I think it's Investment

Belief 9, is that risk is multi-faceted. You'll notice that even here in those quote improved place, there's still a 71 percent probability of shortfall, which is another risk.

And so we have to -- early on in D.C. plans, they actually made the qualified default investment option, what is what covers you from a fiduciary standpoint, the fact that's qualified.

Early on, those were the cash -- the cash option. They actually found that because of inflation, that was a more risky place to be. There wasn't market risk, but there was inflation risk, and so that's why, if we move to a places from -- with -- you know that a -- that a glide path can actually be considered a qualified default investment option, and it actually covers from a fiduciary duty standpoint. So that not taking risk isn't one of the options. We believe this is the best set of risks to take.

COMMITTEE MEMBER YEE: Yeah, I understand. Great. Thank you.

CHAIRPERSON JONES: Okay. Thank you.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Sorry, just a few clarifications. I just want to make sure. The median value is $28,000 is what you said?

MS. O'CONNOR: It's around 28.

VICE CHAIRPERSON COSTIGAN: Okay. Is that at retirement or across all active participants?

MS. O'CONNOR: It's the median balance pre-retirement.

VICE CHAIRPERSON COSTIGAN: So that's across all active participants.

MS. O'CONNOR: Um-hmm.

VICE CHAIRPERSON COSTIGAN: Okay. The 71 percent probability of shortfall, is 71 percent of the 81 percent? Or 71 percent of the four percent?

MR. PALMERI: Seventy-one percent is the amount that you do not reach that 81 percent.

VICE CHAIRPERSON COSTIGAN: Okay. So under -- even under this model, what we're saying is 71 percent of the participants are not even going to meet 81 percent -- the 81 percent goal with a combination of a DB and a DC.

MR. PALMERI: Correct. And remember, so that includes anybody. So you could be at 79 percent, you're still under your --

VICE CHAIRPERSON COSTIGAN: No, I understand. I mean, that -- yeah, that's a big number.

MR. PALMERI: I mean, there's no silver bullet, if that's what you're asking, that's correct. And that's why -- again, that's why -- to the gentleman's point here is there -- it's necessary to be in growth assets to optimize return over time.

VICE CHAIRPERSON COSTIGAN: I think Mr. -- someone made the right statement. I mean, you -- I look at the DC as actually where you take on more risk in order to hit your 81 percent. So I take a lot of risk in that side of the house, so to speak, because you're better off because you do have a DB side. So these folks, I think, can take on more risk, because you have the fact -- you've got the DB on the backside.

But just very quickly, the 13 year drawdown, is that representation between 65 and 78, or is that 78 and then 13 years till it expires? I'm just trying to understand. Footnote 2 says, "In case of shortfall..." - which is inevitable, since we say it's 71 percent. So it's inevitable you're going to have a shortfall - "...years before drawdown represents the number of years the median participant...", who only has $28,000 in their account, "...can draw on their CalPERS 457 balance to meet any income shortfall".

So I just want to make sure I understand this. There's a 71 percent they're not going to meet the 81. It's a 13-year drawdown, and they have a median income of $28,000. I'm just trying to doing the math here. Am I missing anything?

MS. O'CONNOR: So the 457 Plan is used as a stopgap. So we know that participants retire at around age 58, but they don't start taking distributions from the 457 plan till age 65. So during that period of time, we expect them to use their personal savings, or maybe they have the other income from another person. Based on the data that we have, participant start taking withdrawals at 65.

So from 65 to 14 years is when they're pulling down their 457 balance --

VICE CHAIRPERSON COSTIGAN: I'm sorry --

MS. O'CONNOR: -- to reach that 81 percent replacement goal.

VICE CHAIRPERSON COSTIGAN: That's 65 plus 14 --

MS. O'CONNOR: Um-hmm

VICE CHAIRPERSON COSTIGAN: -- to 79?

MS. O'CONNOR: Yes.

VICE CHAIRPERSON COSTIGAN: Okay. But we adopt a 74 year mortality table typically for a male. I mean, I know we're probably beating this one. But when you start -- this is why you've got to love math, because we're throwing a lot of numbers around, right?

Because you can retire at 50, we're assuming they retire at 58. They're doing a drawdown at 65. We're adding 14 years, but the mortality rate is not that far out. So I'm just trying to get --

MS. O'CONNOR: The mortality rate is for a two-person household. So at one -- at a certain point, when we expect somebody to pass away, the income replacement will go down.

VICE CHAIRPERSON COSTIGAN: And then last question, the 28,000 then represents a two-party household? That's the median income -- or median asset.

MS. O'CONNOR: No, the 28,000 is the balance in the 457 plan --

VICE CHAIRPERSON COSTIGAN: For two people.

MS. O'CONNOR: -- pre-retirement.

VICE CHAIRPERSON COSTIGAN: For a two-person household?

MS. O'CONNOR: No, it's for one person in the plan. But all kind of income replacement projections assume a two-person household with a one-person income earner.

VICE CHAIRPERSON COSTIGAN: And I'm just -- I have one last question. Why do we make the assumption it's two income? I mean, with all due respect, my wife doesn't work. She gave up her career 10 careers ago. So where do we model a single person or a single individual with a spouse that doesn't work, or are all of our assumptions based on a two-party household income.

MS. O'CONNOR: It's a two-party household, but a one-person income earner.

VICE CHAIRPERSON COSTIGAN: Okay. That's what I need to know. Thank you.

CHAIRPERSON JONES: Okay. Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.

I find this a fascinating conversation. I think there are only a few of us on this Board who have full longevity risk. In other words, they're are a few of us who don't have the benefit of a DB plan. And so we look at this maybe through a slightly different lens.

I wish I had one. It would be great to be able to have this as an additional component added to a DB plan. So I think when we look at it as this addition, as this added on top of, I think our biggest challenge is that people don't use it. A $28,000 balance is sort of unbelievable as an average. I'm really shocked that number is so low.

So, to me, the real question is why aren't more people using this? And I don't know whether it's just immediate gratification versus putting the money away? I'm not quite sure I understand why. But, to me, that's a -- more of an issue than the plan design.

And it seems like the plan design, given that you have a basis of a DB plan, you may or may not have Social

Security on top of that, which again eliminates longevity risk, says that this is -- to me that this is prudent.

So I'm encouraging people to vote for this, and I even call the question, but maybe that's not appropriate in this forum.

CHAIRPERSON JONES: No, we have one more and then we'll call for the question.

MANAGING INVESTMENT DIRECTOR BAGGESEN: Could I just make a comment in relate to Mr. Slaton's comment though. In other words, what we don't know is what is going be the behavior of the participants going forward. So in other words, you have things like PEPRA that are rolling through the system that could increase the importance of this plan, which is why you come back periodically to redo this analysis. This is not just set it at one point in time, and it's going to run for the next 50 years without adjustment.

Basically, we keep -- we'll come back and we'll review this on probably a five-year incremental basis to refresh all of that pool of information. And it is not necessarily a foregone conclusion, for example, that people are going to have a 71 percent probability of shortfall, because literally if they increase their contribution by one and a half percent on this recommended path, that reduces this Probability to 50 percent. If they increase a contribution to five percent, that's going to -- you know, it's up to the participant to exactly the point that you made, Mr. Slaton, to determine just how important is this to their overall financial picture.

And that's a question that we can't necessarily answer here, and I don't think that we should necessarily be trying to build a plan that could try to account for every possibility of participant behavior. So this is anchored on the average participant in the plan, and the conditions around that average. But you need to understand that I think with, you know, a bit of a grain of salt in that.

COMMITTEE MEMBER SLATON: One last question. The participants do have the ability to move from a glide path approach to the other approaches. So that's totally within the control of the participant, correct.

MR. PALMERI: Yep, that's right.

COMMITTEE MEMBER SLATON: No restrictions on that. Is there timing on going in and out? In other words, if I -- if I went out of this, and then could I come right back in a month later? What's the rule? What are the rules?

INVESTMENT MANAGER REESE: So within the program, we do have some frequent trading constraints, where a participant, if they're moving in and out of a fund too frequently, we will -- we do monitor that behavior, because the -- you know, the goal is retirement savings not market timing.

But apart from those rules, participants do have freedom of choice to move between the core funds, the target date funds. And within the target date funds, they can move to a more conservative or more aggressive fund than their retirement date might suggest.

COMMITTEE MEMBER SLATON: Right. So education component --

INVESTMENT MANAGER REESE: Absolutely.

COMMITTEE MEMBER SLATON: -- is an important part of this.

INVESTMENT MANAGER REESE: Absolutely.

COMMITTEE MEMBER SLATON: Thank you.

CHAIRPERSON JONES: At this time, I'm going to only call on members who have not had an opportunity to speak. So given that, Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you. So I do appreciate this presentation. And I'm going to be supporting this as well.

I just -- I think I had a couple of things that I wanted to like comment on. And one of them was Mr. Slaton's talking about the fact that, you know, not everybody has the pension to build on, and have this 457, so that you can get to 81 percent of your income, which is why I joined the State of California when I did.

(Laughter.)

COMMITTEE MEMBER TAYLOR: I jointed the State of California because your 401(k), or 457, or whatever it is, doesn't always provide what you need.

The other thing I wanted to just ask was this -- 71 percent probability of shortfall, and then the average $28,000 of savings. Does that have to do with -- and I know we're sort of speculating here, but I would think it would have a lot to do with, and I remember the conversations, is after the crash a lot of people decided they weren't going to put money in their 401(k) anymore or their 457. So I'm wondering if that has something to do -- this is very recent history, even though it's been almost 10 years. But a lot of us that are at retirement age -- my husband lost most of his retirement, and he was retired.

So, I mean, I think that has a lot to do with why -- these have to be considered savings plans and supplements.

MR. PALMERI: Yeah.

COMMITTEE MEMBER TAYLOR: They can't be considered your sole retirement fund.

MR. PALMERI: I don't think we can speak to your specific plan's behavior at that time, not having been your -- involved.

But I do think there's a trend that's going on in the -- in the industry, if you will, that most participants, most plans generally looked at the 457 plan, the DC plan as supplemental. So there wasn't a whole lot of emphasis put on over the years on contributing to that, particularly when you had a defined benefit plan.

So I think there's some legacy here probably in terms of why it hasn't been utilized as much. And I don't think that that's anything different from other public State plans as well. I don't know if you wanted to add anything.

COMMITTEE MEMBER TAYLOR: And I just wanted to -- I think -- I think the good thing here is we're looking at this as an addition, as a supplemental plan, but a lot of folks don't have that choice --

MR. PALMERI: Yeah.

COMMITTEE MEMBER TAYLOR: -- like Mr. Slaton said, right? So they are looking at a 401(k) outside of public work as their only source of retirement. And really, that's honestly not given, how 401(k)s have tanked in the past several times in my lifetime. It's something that we need to understand is not -- not a primary source for retirement.

MR. PALMERI: And as Eric said, this is something you want to monitor going forward, and not just the asset allocation in what we're talking about here --

COMMITTEE MEMBER TAYLOR: Right.

MR. PALMERI: -- but your plan participant's behaviors. And Mikaylee mentioned benefits change over time, which the law passed that benefits have been being reduced, so for the younger employees.

COMMITTEE MEMBER TAYLOR: Right.

MR. PALMERI: Both of those are really important points.

COMMITTEE MEMBER TAYLOR: Right. Thanks.

CHAIRPERSON JONES: Mr. Miller.

COMMITTEE MEMBER MILLER: Yeah. Most of my questions have been answered. And I also, like Ms. Taylor, I'm supportive of this. Kind of two things I wanted to comment on one. I think the slightly higher levels of risk extending that accumulation period a little longer, especially looking at slide 21, whereas if we really were reflecting the relative risks in a more real world way, I think the blue area would probably extend to more than cover that -- that four or five year extension, and the complexity of trying to more closely match that would be kind of unreasonable.

And looking at it in the bigger picture of this is supplemental, as these were always meant to be to having an actual pension, which fewer and fewer people have these days, I don't see that as any problem for me to go with. I think I'm pretty comfortable with that.

So I wanted to come back to, you know, Mr. Slaton and ask how do we get people to participate? And at least from my perspective, I'm a professional scientist. We're among the highest paid public servants in State government. I'm one of the highest paid scientists in state government. I'm a Senior Scientist. My take-home pay is under $4,000 a month in that check after you take away benefits, health care, my retirement, contributions.

Public employees, virtually all of them, are paying way more into their retirements than they were a fewer years ago. For me, and most scientists most State miscellaneous, we're paying 60 percent more in than we were. We went from, you know, five percent roughly to over eight percent. Our salaries have not kept up with that at all.

And so for a lot of folks who have a pension, they're relying that exclusively. They're relying on their health care benefits from CalPERS not to be going up and hitting them in the pocket book. And so the biggest thing we can do to get them to participate is to make sure they have some expendable discretionary income that they can put into some of these things, because right now people aren't participating because they can't afford to. They just don't have the cash flow right now.

CHAIRPERSON JONES: Thank you.

Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you. I really appreciate the presentation. And I do feel very comfortable with the asset allocation. So this is something I am familiar with, because I am on a similar board to this with 457. But one thing that wasn't -- it was one of the charts, but it wasn't really discussed, and I agree with everybody about the importance of participant education. So they -- if they're comfortable, they can get the -- the window. If not, the age space -- I think is the retirement age space is perfect.

But I -- do one of the concerns I noticed, maybe it's not a problem here, is a lot of people do the right thing. They contribute, but then they get enticed to roll-over at retirement, instead of keeping the money to -- for full distribution, what have you. Is that a prob -- I mean, I notice there's on chart 17, C, rollover, does that mean the number of people that actually at retirement roll it over out of the plan, is that what that means?

INVESTMENT MANAGER LI: Yes.

COMMITTEE MEMBER RUBALCAVA: So it's kind of low, which is good. But I think if we're going to do a robust communication program about the importance of contributing, it should also include the importance of keeping your money here, so it provides a supplement to your defined benefit as was designed.

Thank you very much.

CHAIRPERSON JONES: Response.

CHIEF INVESTMENT OFFICER ELIOPOULOS: I'm sorry, I was waiting till the motion because I've got some -- summary of points for follow up.

CHAIRPERSON JONES: Yeah. But no, the motion by Ms. Mathur second by Ms. Slaton is on the floor. But I wanted to know did you have any response to Mr. Rubalcava's comments or Mr. Miller's comments before we offer the vote.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Well, I think we -- sure, well, I'll just go quickly. You know, these are supplemental savings plans as has been discussed. In terms of the fiduciary obligation of this Investment Committee to select planned asset allocation and glide path, I think both the expert advice from a recognized third-party expert, R.V. Kuhns, is before the Committee.

You have the advice from your investment staff, as well as independent third-party fiduciary Wilshire. I think they've highlighted collectively the risks and options to your choice. I actually -- the discussion amongst the Committee members I think watching and participating have fulfilled the fiduciary obligations to be prudent in making these choices.

The last piece that I was going to mention is this question of communication, and education, and plan design whether -- I think we're all for -- we are for having supplemental savings plans for our beneficiaries.

The question Mr. Costigan raised around Placer County, whether we have -- which plans we offer, and how I think the direction perhaps could come from the Committee Chair that we work with the CEO to bring that back to the appropriate committee. I think communication, education, whether we offer a plan or not more appropriately belong in the Finance Committee for a future date, but we could work with the CEO to schedule that for you.

CHAIRPERSON JONES: Okay. So on the motion. All those in favor say aye?

(Ayes.)

CHAIRPERSON JONES: Opposed?

Hearing none.

The item passes. Thank you very much.

We now move to 6, which has three different components A, B and C. So we'll start with 6a. And these items under 6 are informational items. And 6A dual class/non-voting shares update and debate.

(Thereupon an overhead presentation was presented as follows.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes, Mr. Chair. Thank you very much. This is the first of three Corporate Governance items 6a, 6b and 6c. And I'll give the team time to adjust and move into the seats here. I'll be joined by Anne Simpson and Dan Bienvenue and Simiso Nzima for all three of the trilogy 6a, 6b and 6c we'll be taking up in succession.

6a is not only a follow-up from last month, but a delayed by one month our promise to come back and discuss dual class and non-voting shares and the debate and discussion around that very important topic is here in April, rather than last March. So 6a is information and educational item, and a preview of what may or may not come over the next year to 18 months in the marketplace on this very important topic, so we'll get to that.

Just to give a preview and expectation setting for the Committee, 6b is review of the principles -- the governance sustainability principles. And that, too, we had some directed items to bring back with respect to the principles.

One having to do with sexual harassment topic, and we have some proposed language for the Committee to consider, as well as a more specific discussion around the Treasurer's request to consider some enhancements or improvements or changes to our diversity principles and guidelines within our principles. So that's 6b.

And then last, 6c is the most straightforward I think of the three. It's our regularly scheduled item to go over our proxy season. It's one of a series of discussions around our proxy season. 6c is particularly a discussion around proxy solicitation, where we'll put the -- both the might of CalPERS name, as well as some dollars in soliciting proxies around proxy fights coming in the current season.

So that's the trilogy laid out.

6a you'll now hear from myself, Anne Simpson, and Dan Bienvenue, I think in that order. No, actually, it will be myself, then Dan, then Anne, in that order to take you through this topic.

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CHIEF INVESTMENT OFFICER ELIOPOULOS: I'm going to start. There's lots of information and background information on, you know, what is one share one vote, what is dual class shares, what is non-voting. I think we've had those discussions in the past and information is provided in the item. What we thought we would do is start really with a scene setting over, you know, what is -- first, what's the debate in the marketplace around dual class shares?

What's the case on the one side for one share one vote? What's the case for unequal voting rights, such that you see in dual class shares and non-voting rights. Now, this is a debate in the marketplace. It's not a debate here within CalPERS. This issue is settled before -- with respect to CalPERS view.

It's a long-standing view in our principles, and a long-standing view of not only this Investment Committee, but the investment staff. So this isn't a debate -- an internal debate, this is merely to -- not merely. This is importantly to show the debate within the marketplace and different market participants who see this topic with different lenses.

The case for one -- well, before I get to the case for one over the other that's covered here, I should say that no matter what side of the market participant ledger you are in this debate, most market participants are viewing this debate from the lens of what's in the best interests of the long-term ownership of these public shares.

Both are coming from the same belief set and the same viewpoint. And the -- now, CalPERS thinks -- believes that the one share, one vote has the better side of that argument, which argues that the shareowners, who hold -- you know, who own fractional shares of these companies, you know, should be able to participate in the most important votes of the corporations in terms of their boards of directors and other very important governance rights.

That over the long term, the ability for shareowners in proportion to their ownership rights to inform and participate in these important voting rights leads to the best long-term result for shareowners and holding these shares of companies for the long term.

There's some other -- other reasons listed in the -- in the bullet points before you. But in the big picture of things, that's the argument for shareowners being able to exercise their ownership rights in proportion to how much they own of a given company.

Now, the case for unequal voting rights in the marketplace, again not how CalPERS is settled, is worth mentioning a bit, especially since really in the tech boom of the last 10 years, there have been more and more technology companies coming to market through IPOs with different voting structures as, well as some non-technology companies as well.

And there, the long-term result, the long-term view for shared performance of a company over the long term by advocates of unequal votes, really believe giving some time for management of these companies to be protected from what we used to call quite colloquially corporate raiders, that protecting companies in management from those types of intrusions by activists with very short-term focus is beneficial. And that will lead to a better result in the long term for many companies, if not those that are IPO'd originally.

That's really the debate in the marketplace.

--o0o--

CHIEF INVESTMENT OFFICER ELIOPOULOS: Again, from CalPERS own views, we're settled on this topic. There's no debate in attorney, and we're not proposing, or no one I -- no one is proposing a debate over that from a CalPERS perspective.

What we do think is important. So that now moving from the marketplace discussion and debate over dual class versus one share, one vote, now moving into CalPERS Investment Beliefs and some of the -- I won't say some of, the main tension between the question of holding companies that have shares that have disparate voting rights, what are some of the tensions that are brought up by CalPERS Investment Beliefs, first off, and then by our practice of holding a very broadly diversified global equity portfolio?

And what this page highlights is that with many things in our Investment Believes, I think we've done a good job at the forefront, you know, several years ago thinking through a lot of these topics. And our Beliefs really do inform our discussion around important policy topics for the overall portfolio.

And this is another example where it's instructive and quite easy to actually go to our Investment Beliefs and see this -- this topic, and how it's framed in our Investment Beliefs.

On the one hand, as we note, Investment Belief 4 really underscores our belief in governance as our primary tool to not only align interests, but manage our capital. And in the global equity export folio, our strong belief and engagement leads us to want to have very strong governance rights in order to enhance the effectiveness of our engagement efforts with the public companies that we own.

This Investment Belief, along with our Principles that are on the following page, really form the basis for our policy -- our policy belief, and our firm Investment Belief in one share, one vote.

Now, on the other side of the ledger, in terms of framing a bit of a -- more than a bit -- framing attention within our Investment Beliefs on this topic is Investment Belief 6 and 7.

Investment Belief 6 familiar to the committee, thinking through asset allocation being the dominant determine -- determinant of our risk profile and returns in the portfolio. One of our sub-beliefs that underscores that is that, you know, we aim to diversify our portfolio across distinct risk factors and return drivers.

Investment Belief 7 in talking about taking risk only where we have a strong belief that will be rewarded, the sub-belief that's under there really goes to particularly in our global equity portfolio, where we use index tracking, passive index tracking strategies, where we lack conviction or demonstrable evidence that we can add value through active management.

Those two beliefs frame this discussion around our support for having very diversified, we say most broadly diversified portfolios possible. And when I turn it over to Dan, he'll talk a bit about our selection in this last ALM process of one of the most broadly diversified global equity benchmarks that can be selected, both from a geography and number of companies standpoint.

So as we turn to, you know, the discussion of holding within our CalPERS global equity benchmark, and the largely index-oriented approach to holding our global equity portfolio, for the long term in as broadly diversified manner as possible in furtherance of Investment Belief 6 and 7, and our firm belief on diversification in general, it sweeps into the portfolio many dual class, and now a more recent entry into the -- into the public markets, no voting shares into our benchmark for holding.

And that has occurred over the course -- certainly, over the course of the last 10 years, and then with respect to non-voting shares, a very new entrant into the marketplace, including, I think, the publicity around snap in particular as a example of that.

The question of, well, as a long-term owner and a proponent and believer in one share, one vote, how can you own shares of companies that are either restricted voting rights, or non-voting rights? And the answer really is this dynamic of diversification, preference in contrast to our stated governance goals in our principles to have all companies be one share one vote.

And as we were discussing as a team on Sunday preparing for this -- this, that is how we view how we'd like the markets -- how it ought to be. And like many of our principles within the governance program, not all companies are either constituted or behaving in the ways that we think ought to be. The market is a messy place. It has lots of different participants and styles, and our governance practices are really all about trying to square our own beliefs and our own views of what ought to be with how the market is actually constructed. And in this case, how our benchmark is actually constructed and the types of companies that we -- that we own.

Now, before turning it over to Dan to pick up -- and he can pick up our actual exposures with respect to these non-one share, one vote type of voting shares, I will note and foreshadow Anne's batting clean-up on this three-party presentation, that we do see quite a roiling debate by market participants about what is the appropriate -- what is the appropriate treatment for regulators, for stock exchanges, for index providers, given this, you know, more recent development of more and more companies coming to market with restricted or non-voting share rights.

We believe there is much -- and we're in the thick of it. I just want you to know CalPERS staff is right in the thick of all those discussions, both regulatory, stock exchange, and index providers. We believe there's much that can happen and likely will happen over the next year to 18 months. And that's why we believe that it's worth taking our time to see how those changes will develop in the marketplace, because it will inform any choices that we make, want to make, or don't want to make with respect to our benchmark selection.

With that, there's some next steps at the very end of the presentation, I'll come back, in terms of timing all of this. But I think the main point I wanted to make, as I turn it over to Dan, is we do think there's quite a bit of work to be done over the next year to year and a half with other market participants.

And there's some both concerning, as well as favorable compromises that are out in the marketplace that we think are worth waiting for, and engaging in, and see how those resolve themselves before we take any action.

So with that, I'll turn it over to Dan to talk about, you know, our holdings in these types of shares.

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MANAGING INVESTMENT DIRECTOR BIENVENUE: Thanks, Ted. So as Ted laid out, we've taken this issue very, very seriously, in working our way through this tension, because we do have these competing desires, right? We unequivocally believe in one share, one vote, but we also believe in diversification. And that's -- that's really where we -- you know, where we have the challenge here.

Historically, the CalPERS benchmark has been the FTSE TMI, which stands for Total Market Index. And by total market, again that's to be as broad and inclusive a benchmark as possible, which is our best chance at diversification, our the maximum diversified portfolio.

Now, on slide 11 what you can see is that fully -- that that benchmark results in fully 10 percent of the global equity portfolio being invested in securities that have some differential voting structure. And, of course, when you manage $180 billion portfolio, that 10 percent represents nearly $20 billion. So it's a material exposure, and that's one of the many reasons why we'eve taken this -- this tension so seriously.

Even in the next area under MLPs, and -- that includes snap, even that portion of the portfolio is over half a percent, or about a billion dollars invested in securities with no voting rights. And again, that's -- that's something that gives us pause, but it also is a material component of the portfolio and it does add some diversification.

So as we manage to that benchmark, we certainly and are constantly looking to add value in managing against that bench. And so we do indicate for and we receive IPOs, as we manage that most diversified portfolio. We've received -- we've indicated four and received IPOs in companies that are incredibly well governed, like Amazon, but then also others like Google and Facebook and even Snap.

Now, this per -- the performance of this activity, this indicating for and participating in IPOs is candidly mixed on a case-by-case basis, but the securities do historically get added to our broad TMI benchmark. And this activity in aggregate has added performance to the portfolio.

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MANAGING INVESTMENT DIRECTOR BIENVENUE: On the topic of performance, that will take us to slide 12, in a recent blog published by MSCI, they calculate the performance of unequal coating shares versus their universe for a 10-year period from 2007 to 2017.

And over that time period, for the broad ACWI universe And ACWI is MSCI's most broad universe. For the broad ACWI universe that includes both developed and emerging markets, unequal voting rights have actually outperformed the standard benchmark by two and a half percent per year.

So given an approximate 11 percent weighting in their benchmark and the MSCI benchmark, removing them from the benchmark would have actually resulted in underperformance of the benchmark of about 30 basis points per year, which is a -- which is a, you know, material underperformance.

The study also found that the unequal voting rights stocks had higher growth and higher profitability, which are good things, but then also candidly higher earnings variability, which is risk, and then lower dividend yields. So it's a -- it's mixed bag on these -- on these securities.

Stripping out common factors, and by factors, I mean things like country, sector, and then even styles like value, growth, and things like that, MSCI found that actually the majority of the residual effect of this performance is actually stock specific. It's not factor-based exposure.

So now the perspective performance for the next 10 years may or may not be like the past 10 years. But because of the material size of the exposure, and the historical performance differential, your team here has taken this debate very seriously or taken this tension very seriously. And it's one of the reasons we've been so active and engaged in working through the topic in the marketplace.

So I'll use that as a segue to hand the clicker back over to Anne to take us through some of CalPERS involvement in this and go from there.

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INVESTMENT DIRECTOR SIMPSON: Thanks very much, Dan and Ted for setting the scene. Anne Simpson, Sustainable Investments Program.

My role in this presentation is really to tell the Board what we've been doing to address this slide towards dual class listings, and also the rather shocking arrival of Snap, which was the first company to list without voting rights. And we make a distinction there, because master limited partnerships actually are not companies. Although, we've had investments, and we've had some vigorous engagement most recently around the Dakota Access Pipeline, in a situation where we didn't have voting rights, and went through bank financing instead.

So let me turn to the next slide.

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INVESTMENT DIRECTOR SIMPSON: As Ted said, this is an issue which is very live and controversial in the United States, which is extremely important globally, because the U.S. is still the world's largest capital market, but it's not a topic just confined to the U.S. It's something in Asia that's a topic of discussion, partly because some of the Asian markets are worrying about the fact that they may have been losing out on listings, for example, Alibaba, because the U.S. allows variations on the theme of one share, one vote. And up until now, other markets have had tougher rules, or if they're allowed dual class, it's come along with some very tough, additional shareholder protections.

So here just to give a flavor of some of the discussion in the U.S. market, the incoming new Chair of the SEC Jay Clayton has said it's a topic that should be discussed. In other words, he acknowledges this is something of real importance in the market.

And also, Commissioner Kara Stein went further to express her view that structures where a minority of insiders lock out the interests and the rights of the majority may also have collateral effects on our capital markets. So I think what she was recognizing is that although this may seem a more attractive and welcoming listing environment, there may be some underlying concerns, knock-on effects that need to be addressed, if governance standards are weakened in the bid to attract listings.

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INVESTMENT DIRECTOR SIMPSON: Let me move to the next slide.

So what we've been focusing on is how we can be part of an effort to improve the quality of the capital markets in the U.S. And most important there, I think, has been the Council of Institutional Investors. And they have really led the investor community in raising the issue with regulators, also with the stock exchanges. But also very important last year, they took this to the index providers.

And that matters because many investors use these indices in order to make decisions about where to allocate capital. And really a goal for a company, whether they're listed or they're growing, or hoping to move from small to medium to large cap companies is to be included in these indices, because they're -- this improves the liquidity of the stock. It also improves thereby their access to capital.

So the -- as more money has gone into index strategies, those who construct the indices and decide, well, what are the criteria, what's the -- what's the price of entry into our index, these have become important and powerful players in the market.

So CII engaged, and CalPERS also wrote its own letters to each of the main three index providers. And I think really, as Ted suggested, there is a roiling debate, but there's also been some very, very significant response from the index providers. I think we've been very pleased to see that each of the main index providers has made a response. Now, the responses that they've made are quite different.

And we've gone into glorious detail in what they're providing and offering to the users of their products in the appendix. And many thanks to Don Pontes for pulling all of that together, because was a -- it was a fair amount of work.

I'm happy to answer questions on the different approach that they're taking, but the summary on this slide really says, okay, for FTSE Russell, their basically saying you have to give a minimum of five percent of your shares, one share, one vote, which effectively excludes a company like Snap.

MSCI is saying, okay, well, we're actually going to take the lack of voting rights into account when we're deciding what proportion of the free float, that's the company shares, that are actually going to be tradable in the market.

So the effect of their approach is going to be reduce the market waiting of companies with no votes, and importantly for the dual class companies as well. They're also giving a bit of a grace period to let companies sort of settle on this and decide whether to change the current -- the current arrangements.

And then finally, S&P have gone further. And they're saying, all future dual class IPOs cannot come into their flagship composite index, the 1500. And also they're giving a grace period for some cleaning up on this in the S&P 500.

So although this is quite a complicated set of responses, I think what it's showing is a weight of money coming forward to say, there are rewards for giving one share, one vote. In other words, this is a lot of -- a lot carrots, a lot of access to capital being decked against, you know, one of our principles, which is one share one vote.

And obviously, it's very -- it's very early -- early days, but it's going to be very interesting to be able to track how this has an impact. I think one -- one effect is that it was predicted with Snap having this audacious new structure, new IPOs might copy what Snap was doing. And we might be then faced with a whole on the one hand we want more IPOs, we want the public markets to thrive, we're delighted to see the uptick in IPOs in the United States, but would it come at the cost of having more companies with a -- and, in fact, what the CII has been able to show, which is, I think, very encouraging, is although we've had this uptick in IPOs, we've held over 80 percent companies coming forward with one share, one vote.

So I would suggest that maybe these signals, as economists call them, signals in the market, that this matters to investors, and it could actually affect your access to the quality of capital and liquidity. We might be actually having some positive impact here.

So finally, on the what are we doing, we are also thinking through what -- how we could square the circle, how could we both accept that there are legitimate concerns by companies about short-termism in the market. Something very much at the heart of CalPERS' concerns. In fact, Investment Belief 2 highlights the enormous importance of a long-term investment horizon, and our responsibility to encourage companies. But that is not true throughout the market.

We know that there are short-term traders, and there are short-term raiders, and we're trying to hold the line with companies as a long-term owner.

So something through our work with the Council of Institutional Investors, but also the SEC Investor Advisory Committee where CalPERS sits, and its subcommittee on Investor as Owner, we're actually looking at some new options to be explored. I think it's early days for CalPERS to make a decision or for staff to make a recommendation, but we're thinking that we may be able to capture --

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INVESTMENT DIRECTOR SIMPSON: And I'm just putting up some data from one of the new SEC Commissioners who the CalPERS Board will know well, because Commissioner

Robert Jackson was one of the co-leads of our own sustainable investment research initiatives several years ago. So a great champion of shareowner rights and responsibilities.

He has pulled together data showing that there is a beneficial effect, it seems, in the valuation of dual class companies, but it evaporates after time, and that makes some intuitive sense, which is that if you have brilliant founders of companies coming to the market, that brilliance will fade. It's something we can observe over time. It's very hard for brilliance to just say it for people to -- can't be at top form right through their career, it's going to -- you know, and also what the companies needs will change. What you need in a founder will be perhaps different when you're entering into a period of stability and major growth.

So it's -- in these data, I think what we can see is that there is value in the dual class structure initially, but it evaporates at around the seven-year period.

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INVESTMENT DIRECTOR SIMPSON: And what that has raised in everyone's mind is the idea that perhaps a sunset provision is something for us to look at.

CalPERS currently does not have language on this in our principles. It's something quite new as an idea. And, you know, let's just quote Commissioner Jackson, because he said it so beautifully. He said, perpetual dual calls ownership, forever shares - and I would add into that forever shares with no votes - don't just ask investors to trust a visionary founder, it asks them to trust the founder's kids, and their kids' kids, and their grandkids' kids. So that's really some intergenerational continuity that we may not want.

Anyway, we put here sort of three ways that you could introduce a sunset. One is just simply seven years time is up, you know. Another is well -- and it's a little bit like the JOBS Act, which is as you become a certain size, you know, responsibilities increase, and we want more governance best practice built into a bigger company.

And, of course, another way of looking at it would be there are certain events. You know, what used to be, I think, the British Companies Act, if you became mad, bad, or dangerous to know. If something happened with the founder, you might revisit the idea that there were no votes or that there were dual class votes.

So, as I said, this is something that we're looking at as a participant at the SEC's subcommittee looking at this issue. We've helped develop the language around improving the SEC's disclosure, and drawing market attention to where these variations from one share, one vote exist, so that people don't find them sort of just rather buried in the midst of a long document. They're brought to the fore. That's a good thing.

And also, we know that the SEC is considering re-engaging with the stock exchanges to start talking again about how this could or should be reflected in listing standards.

And, you know, until the mid-eighties, it was not allowed. You had to have one share, one vote to have that listing on the New York Stock Exchange.

So as Ted said, there's an enormous amount of debate. We're very actively involved in it, not just through the Investment Office, but also through the Legal Office. As you all know, we had successful litigation, led by our General Counsel at a company trying to vary voting rights.

So I think both on the litigation front, and on our advocacy in the market, we've been in a lot of work, and we are seeing some movement. But it's all -- it's all in flow, as we're speaking. So with that, let me -- let me turn back to Ted to take us through the next steps, where --

CHAIRPERSON JONES: Okay. Thank you. We do have several questions on this particular component, but we're going to take a 10-minute break. Let's come back at 11:40.

CHAIRPERSON JONES: Okay, 13 minutes.

INVESTMENT DIRECTOR SIMPSON: Thank you.

(Off record: 11:27 a.m.)

(Thereupon a recess was taken.)

(On record: 11:40 a.m.)

CHAIRPERSON JONES: Can we reconvene the Investment Committee Meeting, please.

Okay. So we-- we're going to go to the questions on 6a.

And we start with Mr. Juarez.

ACTING COMMITTEE MEMBER JUAREZ: Thank you, Chair.

So I'm -- I've listened to the presentation, and I'm not sure -- and I even see your next steps, but I'm still not sure where our preference lies, because I sense the conflict that exists here, that we have an emerging class of IPOs in companies that are coming forward with these dual share structures. And yet, they also, at least for the short term, appear to provide benefits beyond what the -- what the index or what their total composite of competitors might be.

And so I'm just -- I'm still uncertain from your presentation, if, in fact, at some point, we may choose one side versus the other or not.

And so again, I'm going to sort of put you to the task of telling me -- telling the Board where do you think we're likely to end up on all of this?

CHIEF INVESTMENT OFFICER ELIOPOULOS: You bet.

ACTING COMMITTEE MEMBER JUAREZ: So just put it to you. Go ahead.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Sure. Yeah, the tough questions. Well, I think, number one, our principles, and our advocacy around one share, one vote we're not advocating, nor would we ever think there would be a change in our approach to that.

We do think that there will be some important changes that Anne underscored, either at -- from a regulatory standpoint or from the stock exchanges, and certainly we're already seeing movement from the different types of offerings from index providers, but we're really watching what may or may not happen out of the regulators, and the stock exchanges.

So our biggest piece of advice is let's wait to see how that regulatory and exchange environment changes over the next year to 18 months is what we've said, and not force an answer to question -- a question about changing our benchmark methodology until that debate has gone further, because there's enough changes that might be coming, that would inform us, and it would be premature to call this -- call the ultimate question on whether or not our bench -- current benchmark methodology is the right one or not. That's the second piece of our recommendation.

And thirdly, in terms of our global equity benchmark, we will review it in two years. That's the mid-year cycle that's referenced. And in our agenda materials, our actual written agenda memorandum, we say that, at that point in time, would be a time we could review in more detail whether or not it makes sense to screen our benchmark - and I'll use my words carefully - screen our benchmark or divest of shares of companies that meet some of these definitions.

We don't think that now is the time to take up that question. We are posing for the Committee whether or not that would be reviewed at our mid-year cycle or earlier. And that's a question for the Committee. We -- we're not recommend that we take it up earlier. We think it's something that would come naturally at the mid-cycle, and gives us time for this regulatory and stock exchange work to go forward.

ACTING COMMITTEE MEMBER JUAREZ: If I might, then I appreciate the answer and I appreciate the timeline. I would just -- since I'm not likely to be here in two years, just to put it on the -- the Board should put it on as a marker that when they come back, that we ask the question. We now have all that information, or presumably would have all the information, we need to make a decision. I would hope that the decision, if the decision is to divest, that it's as difficult as the one that you had last month when it came to gun divestment, and that all the factors are fully taken into account.

I mean, you always have to be careful when you make a statement that you don't get hoisted on your own petard. So I would just raise that as an issue. And then in two years, we'll see whether circumstance have changed. And so I would just encourage the Board to stay on that, and in two year's time we'll see whether it's worth taking action against these firms.

CHAIRPERSON JONES: Okay. Thank you, Mr. Juarez.

ACTING COMMITTEE MEMBER JUAREZ: Thank you.

CHAIRPERSON JONES: Ms. Mathur.

COMMITTEE MEMBER MATHUR: Thank you.

Well, first of all, let me just thank you for putting -- preparing this agenda item with such little time and so thoroughly. I really think this is a significant effort and I really appreciate the responsiveness of the team.

Secondly, I am encouraged by some of the developments in the marketplace. I think ideally it would be addressed by the marketplace more broadly, and not be something that CalPERS has to make a decision about one way or the other. So hopefully, things will evolve in such a way that support our one share, one vote view. And I'm prepared to be a bit -- a little bit patient around that. I am con -- and I also appreciate that right now, the way it looks in the -- there's a premium in the early years of these companies, and then that deteriorates and actually performance is -- there's underperformance in the outer years.

What I'm -- one thing that I'm concerned about is clearly the trend in dual class shares becoming more -- ore common in the marketplace. And, yes, good, that we're sill not -- haven't reached 80 percent. We still have 80 percent of shares being issued on a one share, one vote basis.

But let's say the market moves to, you know, 30 percent of shares being dual class, or 40 percent of 50 percent, my -- I would imagine that not all of these companies will be sort of the exceptional technology superstars with the -- you know, that outperform so early. And so the -- sort of this link between performance in the early years and dual class shares, I just -- I can envision that it could be really weakened if this becomes a more popular approach.

So, yes, watch and see. And hopefully, the market will develop in such a way that will support our views and we'll come back to it at an appropriate time. Thanks.

CHAIRPERSON JONES: Okay. Ms. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman.

I very much appreciate this presentation and really the thoroughness of it as well. I had a couple questions that may be could help us as we think about all of these considerations going forward. And that is you talked about most of these companies being tech companies. And I was wondering if you could give us a break down of the sectors that are represented with respect to the dual vote companies?

CHIEF INVESTMENT OFFICER ELIOPOULOS: I'm looking towards our global equity side of the desk.

MANAGING INVESTMENT DIRECTOR BIENVENUE: I -- you know, candidly, I don't have an exact break down. I can --

COMMITTEE MEMBER YEE: That's okay. It can come back. It can come back.

MANAGING INVESTMENT DIRECTOR BIENVENUE: Okay. Yeah, we can come back with that. I can tell you that the -- three of the five largest are tech companies.

COMMITTEE MEMBER YEE: Right.

MANAGING INVESTMENT DIRECTOR BIENVENUE: So they're Google, Facebook --

COMMITTEE MEMBER YEE: Right.

MANAGING INVESTMENT DIRECTOR BIENVENUE: -- and then Samsung. And in there, you've also got Berkshire Hathaway and Visa. Those are the five largest. So, I mean, it is definitely tech dominated, and even U.S. tech dominated. But for more details, we'd have to come back.

COMMITTEE MEMBER YEE: Okay. Okay. That's great. If you could provide that. And I think with the emphasis on tech companies, certainly I think the ongoing concerns that we have as a state with respect to the impacts of technology and how that will affect the changing nature of work, I just think it's essential that we as investors continue to have a vote, and to be able to influence corporate governance of these companies going forward. And so I just want to put that down as a marker.

With respect to the index providers the three that you cited in slide 14, will there be or have you seen any preliminary modeling that looks at what expected returns might be from the various approaches?

MANAGING INVESTMENT DIRECTOR BIENVENUE: You know, I can -- I think this may be a question more for

Eric, but I'll just, at a high level, when we talk about 30 basis points of what has been the last 10 years' experience, the degree of uncertainty around our capital market assumptions are sufficiently broader than that, so it would be hard to come up with a -- with a sort of a differential prospective return expectation, with the only exception being that again knowing what the past is, but then also narrowing the universe. You know, certainly through a quantitative investment management framework, narrowing the universe, you know, can only -- can only result in -- you know, constraints on the optimize -- optimizer can only result in a worse outcome.

So -- and for an active management standpoint to narrow the universe not only narrows, you know, what's in the benchmark, but then it also narrows the degrees of freedom that our active managers would have.

COMMITTEE MEMBER YEE: No, I understand that.

INVESTMENT DIRECTOR SIMPSON: Anne Simpson. I'd like to add a point to what Dan said, which is the index providers are creating an incentive for companies to change their voting structure. So if we're left -- if -- we're stuck, you know, between a rock and a hard place missing out on the gains, for example, from the technology sector or fantastic performance like Berkshire Hathaway or we don't have one share, one vote and things go wrong in the future, and there's nothing we can do to, you know, protect our interest as a shareowner.

By creating this economic incentive, my hope and I think this is -- let's see, I'm an optimist at heart, my hope is that, you know, company executives are largely rational individuals, and they want to the see their companies succeed, and access to capital is part of that success. So to the extent, we can help create that economic incentive, we're putting in place some incentives for companies to actually take the high road for governance, because it's also the high road for their access to capital.

So my hope would be, just to add to Dan's point, that we see more companies deciding, wow, yes I do want to be considered to be part of the S&P flagship indices. I've got a five-year grace period, let's see if we can start to unravel some of the dual class structure. So I think that's the one to watch for.

COMMITTEE MEMBER YEE: Yeah. Okay.

MANAGING INVESTMENT DIRECTOR BIENVENUE:

Absolutely. I'd say both access to capital and cost of capital to Anne's point --

COMMITTEE MEMBER YEE: Cost, yeah.

MANAGING INVESTMENT DIRECTOR BIENVENUE: -- both are critical components for a manager. And our hope would be again, because as Ted said, we are settled, we believe in one share, one vote. Our hope would be to see actually some of this -- some of this, you know, reverse course.

COMMITTEE MEMBER YEE: Uh-huh. So how are we currently dealing with dual class shares in our global equity benchmark?

MANAGING INVESTMENT DIRECTOR BIENVENUE: They're included in the portfolio. So that's the -- that's the 10 percent that I referred to.

COMMITTEE MEMBER YEE: Okay. So that's -- which is --

MANAGING INVESTMENT DIRECTOR BIENVENUE: That 10 percent of the portfolio has some differential voting -- differential voting rights.

COMMITTEE MEMBER YEE: Okay. I want to just I express agree with Ted in terms of really taking a wait-and-see approach. And I do hope that we have a robust review when we do the ALM mid-cycle. But I do have to say that just looking at our Beliefs and what CalPERS has always stood for, the no vote share model just really is bothersome to me.

And I hope that we can have -- and, Mr. Chairman, I'd like to maybe just specifically agendize a discussion about the potential of excluding these companies from the index when we do have our ALM mid-cycle review, because I just don't see how that serves us. And I hope that just by our even taking that discrete matter seriously, that maybe we can send a signal with respect to our valuing the one vote, one share.

CHAIRPERSON JONES: I think that's consistent with the request so --

COMMITTEE MEMBER YEE: Okay.

CHAIRPERSON JONES: -- similar to Mr. Juarez two years from now. Okay.

COMMITTEE MEMBER YEE: Thank you.

CHAIRPERSON JONES: You're welcome.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you, Mr. Chairman.

I just want to thank you, Ted. I know this was short notice. I know I was kind of like we got to have this. And I do appreciate it. It was very thorough. Thank you all very much for a really good report. I just wanted to clarify, you guys were talking about some of the sector that's represented. Google, Facebook, Berkshire Hathaway are some of the stocks that are involved in the dual share, right? But is -- and Snap is the only -- is Snap the only one that has no votes?

CHIEF INVESTMENT OFFICER ELIOPOULOS: I think there's a few -- a few others.

COMMITTEE MEMBER TAYLOR: There are a few others?

MANAGING INVESTMENT DIRECTOR BIENVENUE: So in the past year or so, there have been four IPOs that have no voting structures. Snap is the only one that's actually issued them. So a couple of others came public with no voting structures. But what the actually issued to the market were dual class structures. So they were 10 to 1 --

COMMITTEE MEMBER TAYLOR: Okay.

MANAGING INVESTMENT DIRECTOR BIENVENUE: 10 to 1 super majority vote. They're super.

COMMITTEE MEMBER TAYLOR: Okay. So they're the only one that actually went to market with no.

MANAGING INVESTMENT DIRECTOR BIENVENUE: The only one in the hands of investors currently. Now, as Anne mentioned, there are MLPs, so that's a -- that's a different topic. But from a standpoint of companies that issued stock, the only one so far is Snap.

COMMITTEE MEMBER TAYLOR: Okay. So -- and I'm just going to ask this, because I know that this company has had issues, which is -- is Uber a dual share?

MANAGING INVESTMENT DIRECTOR BIENVENUE: It's not publicly listed. It's a private company.

COMMITTEE MEMBER TAYLOR: It's not publicly listed. Okay. So I just want to make sure that we have an ability to have some, you know, discussion when things go wrong. And it seems like in the short term, they make us a lot of money, and then that's not the case in the long term, and that's when we have issues with these companies.

So I just want to make sure that, as Ms. Yee said, that we look at this at our ALM. I'm a little disappointed that we kind of got stuck with it and have to wait this long, but I would like to see, you know, have a discussion about it. And agendizing it makes sense to me as well, so...

CHAIRPERSON JONES: Thank you.

Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.

I wonder if you could comment on in past meetings we've talked about the dynamic of a reduced number of public companies versus companies staying private. It seems to me that no note is just another version of being private, but -- so is this just another item in the list as companies consider it, or how -- how big of an issue is this from the company's side in terms of the shrinking universe of public companies versus one staying private?

CHIEF INVESTMENT OFFICER ELIOPOULOS: Well, Anne's -- Anne has seen this discussion up close at the SEC Investor Advisory Commission. It is part of this capital formation question. Are the -- try and say this unbiasedly -- not biased by our one vote, one share, or on the other side at all.

Why is it that there are fewer IPOs than previously? And is it -- you know, is it the array of regulations? Is it the growth of capital in the private markets, and the ability to fund, you know, these companies for longer periods of time? There's lots of factors at play. But certainly, the fact that there's a pronounced number of dual class vote shares coming forward, particularly out of the tech sector, you know, leads us to believe that -- you know, it could be argued either way, that it's a nice outlet to have dual class shares to allow some of the technology companies to come forward, or that -- or that, you know, the fracturing of the market is leading many not to even list, but Anne you've had this debate.

INVESTMENT DIRECTOR SIMPSON: Yeah. No. Thanks very much, Ted. The SEC's Investor Advisory Committee has been having hearings on a whole string of issues. One of them was on one share, one vote. Another one has been on the incredible shrinking IPO market.

And as Ted said, you can't isolate the corporate governance agenda from some other big economic factors. And one of them is what are the public markets being used for?

So, you know, up until probably 25 years ago, companies were coming to market to raise money for the business. And now, companies are coming to the market, and often the purpose is to monetize compensation for executives, and to buy out the original or second round of venture capitalists. So you've got that dynamic.

Secondly, and this was a theme that came out in the hearings that we had, is that there is not a level playing field in terms of regulation with public and private markets.

So the question of, you know, for retail investors, the SEC Chair is very concerned about this. Retail investors can't get access to all the economic potential that's in the private markets. We can be in there through our private equity asset class, but most people in the stock market can't get hold of that. So all that late-stage venture capital growth is happening before, or instead of, an IPO. So some of it I think is economic secular change, and what do companies need money for.

Secondly, you've got the fact they can stay private, and have abundant access to capital, if they want to stay away from the market. And then there's a whole series of regulatory changes which have imposed additional costs on companies, and which the SEC is looking at. Because, you know, if red tape is there, it should be there for a reason. And if it is imposing unnecessary costs or barriers to companies, it needs to be removed.

However, under the so-called JOBS Act, there was an attempt to remove a lot of reporting and costs, what was perhaps considered a burden at the time, for companies as they came in.

And really, there hasn't been -- that doesn't seem to have had a big impact. So that has left people scratching their heads, and say, really, you said the costs and the regulation were the problem. We've now given you a sort of glide path into the market without having do all kinds of Sarbanes-Oxley salary reporting, and that hasn't fixed it.

So I think it is part of a bigger discussion, but we're very glad that the SEC is looking at it. And it's going to have a profound impact on many investors. Norges has published a discussion paper on this topic, and saying really, institutional investors, even if they're able to access private markets, need to put their heads together and start thinking about what's going on in the public markets, because this is not just affecting the U.S. It's affecting other markets as well. So there are big economic consequences not having, you know, a healthy flow of IPOs.

COMMITTEE MEMBER SLATON: Is that -- is that report generally available?

INVESTMENT DIRECTOR SIMPSON: Yes. The SEC website has a sort of webinar section where you can pull up the hearings, and the debate that we had. But the papers that were submitted, some of them were absolutely superb and gave a lot of data, and really, I think have provided a lot of context to us, and I think helped us realize it's not as simple as saying, wow, you come to the market and suddenly the owners want to vote. Best to stay away.

You know, we have heard that version of what's going on, that I think what's really helpful about these hearings is they've really just shown that we've got a much more complicated set of issues to deal with. And that's important to know. It's not a -- it's not a simple fix.

COMMITTEE MEMBER SLATON: Thank you.

MANAGING INVESTMENT DIRECTOR BIENVENUE: And I would only add one thing is -- and it's not only complicated. All of Anne's points obviously are spot on. It's even complicated by the size of the IPOs. And now you're finding that especially the small IPOs, you know, the companies like, you know, Oracle and Apple and

Genentech that came public as really, really small companies, and yet, public retail investors had access to them, that, you even, though the Facebooks and the Snaps of the world that come under these, you know, governance structures that -- that we're we not big fans of, even then they wait until they're really big companies before they come. It's a concern.

CHAIRPERSON JONES: Okay. Thank you. So no further questions on that item. We move to 6b, Proposed Revisions to Governance and Sustainability Principles.

(Thereupon an overhead presentation was presented as follows.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: Great. We're moving right along. So Anne, 6b, I'm giving you a cans to shuffle your papers. Really, the point in 6b is we're going to take up some proposed policy word -- new changes to our principles with respect to corporate culture and sexual harassment. And we have some proposed language that we're recommending. Now, this is an information item. If the committee gives us direction of comfort of that language, you'll see it next month and the following month in the form of the Total Fund Policy, which includes these principles where you'd actually take action to accept it.

In addition, there's a brief -- there's a discussion of the Treasurer's proposal on diversity that I think last month we didn't get a change to speak to in specificity.

So with that, Anne, I think the plan is for you to take it away from here.

INVESTMENT DIRECTOR SIMPSON: Thank you very much, Ted. Anne Simpson, Sustainable Investments. As Ted says, we've got two pieces to discuss today that we've put forwards. But I do want to acknowledge that when we restructured the Principles, we put them into five, what we call, core issues: Investor rights, board quality, compensation, reporting, regulatory effectiveness.

So we've worked our way down the to-do list that came out of that review, and we've also responded as time has gone by to particular issues that have been raised with us. So I just want to emphasize this is the very -- a very good example of a living document, something that we expect to respond to what's going on, but also which responds to things that we learn. We learn from experience. We learn by doing.

So we welcome the Board's suggestions and input from stakeholders, and also what comes through our own engagement with companies as well.

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INVESTMENT DIRECTOR SIMPSON: So with that, just as a reminder, this is -- we're not writing a section of the Old Testament. This is something that guides us on a daily basis for company engagement, for regulatory advocacy, for talking to companies and talking to our managers. It's a guide. It doesn't substitute for judgment, because any particular situation you've got to weigh a lot of things out. But really, we -- this is our -- these are our guiding principles, and overseen and belong to the Board -- overseen by and belong to the Board.

So thank you. I think on the staff front, we were very glad to have the issue of harassment raised at the last meeting. I think all of us have been watching with horror at the revelations that have been coming out. And also, we can see the impact on the companies that we invest in. I mean, share prices collapsing, and reputations destroyed. So this is something where you -- I've got a perfect example of where ethics and money really, really do combine. This is an important issue.

We were also very glad that the Council of Institutional Investors, as so often, has been absolutely on this, and produced for members last month a very thoughtful guide. And we've included the whole document in your materials, so you can see the quality of the analysis.

So we really felt that we could draw upon not just -- however, it's a short period to look at a big topic, since it was raised at the last Board meeting, but well really felt we had something very thorough that we could -- we could draw from. Now, we didn't just copy and paste from that document. Much as we love CII, we went through the usual process of taking ideas and debate through our Research Working Group, and then circulating to the subcommittee of the Investment Strategy Group, the Governance and Sustainability Subcommittee.

So we've had a lot of involvement from all the asset classes, and a lot of helpful input from our Legal Office as well, which we're very grateful for.

The upshot is we have two proposals on this topic, and are seeking the Investment Committee's review and improvement in all humility.

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INVESTMENT DIRECTOR SIMPSON: So the first -- the first section that we think could really be improved is our section on board quality, you know, board responsibilities. What do we want to hold boards accountable for doing on our behalf as the owners of the company?

And we've drafted some language, which I'll take you through in a moment, but we also think that this issue of harassment, and it could be sexual harassment, it could be on all manner of other possible topic. So we're using sexual harassment as the example, but there are other possible areas. We think it's important that this goes into our section on human capital management. In other words, once a company's policies and practices are being implemented, what should we be looking for on management?

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INVESTMENT DIRECTOR SIMPSON: So I won't read this all out, because you've had chance to look at the language. But I just want to highlight a couple of points, which I think are significant, and I think reflect the way that CalPERS approaches this issue. And we have gone further than the CII on some issues. Rather than just asking a question of a board, we actually want something to be taken up because we think it is going to protect us from the risks of this sort of conduct destroying company reputation, and thereby, among other things, affecting -- affecting our returns.

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INVESTMENT DIRECTOR SIMPSON: So the section that we're suggesting is that we include something called "Corporate Culture". It's funny when something new gets brought to your attention, you look and say, well, how is it we didn't have that before. Well, we didn't.

But, of course, we all know that the culture of any organization is what underpins its ability to perform, whether it's in public service, or in the private sector, or making returns. So I think it's a really welcome opportunity to include this -- this new section.

And we've highlighted that we want the Board to have an active role in setting a high performance culture. In other words, we're not accepting that this is just something for the chief executive, and the senior executive. Of course, they'll implement, but we want the Board to step up and accept it's a responsibility.

And we're giving examples of what it would include. It's not exhaustive, but it's in diversity, inclusion, also innovation, very important, and to ensure the workplace is free from sexual harassment, and very important, other forms of harassment.

And we highlight the importance of fostering trust between employees and management and promoting ownership and accountability for an ethical corporation. So that's the overriding vision that we have for corporate culture on this point.

Then what we've done is say specifically what would that look like if a company took this up? And we followed what we're finding to be quite a good structure for a whole range of different topics. For example, climate change is the most recent example. What does a -- how do we know that a company has actually picked and issue up in the right way.

So the first thing makes sense, the Board should develop and disclose its efforts, including policy -- so the mechanisms through-which the board learns about employee complaints, and also how claims are addressed.

And the next point is very important. We're saying CalPERS supports voluntary arbitration in company policies. And I think some of you may have seen the financial times, did a very nice survey on the issue of sexual harassment and posing the question, well, why is it so hard to find out what's going on. And their observation is that because many companies have mandatory arbitration, forced arbitration, settlements don't see the light of day now, unless they're required, because they're material to be disclosed under a regulatory provision.

And Microsoft was cited as an example of a company, which had gone to a voluntary arbitration. So, of course, we would say, if there's a way to settle through arbitration, both sides accept that that's a good way to go forward, so you're avoiding all the costs, and conflict, and aggravation of a court case, and you can settle, but both sides agree, and that's a good thing.

So we're not saying arbitration shouldn't be used. It's just simply it shouldn't be something forced on employees. But I do want to flag that, because it's something we talked quite a lot about, you know, on the research team and the GSS.

The second flows, of course, from the opening points in the language is what do we mean by board oversight? So we're giving examples. We're saying we want the Board to have oversight of the policies, the practices, and executive responsibilities. That means actually making sure, I would suggest, that this sort of thing goes into performance plans, and duty statements, and all the different arrangements that ensure that the executives of any organization are, you know, in line with the Board's expectations on ethical behavior.

And specifically, we're saying Board oversight should be around, in all its dimensions, implementation of the, you know, effective corporate culture, which above we've explained a little of what we mean by that.

And finally, I want to highlight something we've introduced in the disclosure section, because again it's significant. We're saying that companies should ensure that all settlements are reported to the Board. And remember if we don't have mandatory arbitration, and all settlements go to the Board, we think this is necessary for the Board to be able to exercise effective oversight.

They don't know what's going on, and they're not getting the flow of information. Very hard for them to do that job well. We do acknowledge that, for example, the SEC and the United States requires disclosure of material settlements of any sort, which would include sexual harassment, but for a settlement to rise to the level of materiality, as understood, as defined by the issuer, could mean that a lot is not being -- being tracked by the board.

So what we're saying here is that CalPERS supports the disclosure of settlements, including those on sexual harassment where - and this is important - they involve an executive or a board member. So in other words, it's management's responsibility to deal with settlements throughout the employee structure. We think all of that should go to the board, so the board can oversee and understand patterns, and track properly what's happening.

But we think as an owner of the company, if settlements are made, and they involve executives or board members, that's something we would like to know about.

So I'd be happy to take any questions on this or move quick quickly onto the next section.

CHAIRPERSON JONES: Why don't you complete your presentation first.

INVESTMENT DIRECTOR SIMPSON: Just finish this piece, yes.

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INVESTMENT DIRECTOR SIMPSON: So our apologies for -- well, not apologies. It's an important issue and we've put a lot of thought into it, so I hope that's a helpful explanation.

The next area, and I think this is where our Board President initially suggested we look for including language. We agree. We think that the section on human capital management practices is absolutely the right place to make specific reference on harassment of any kind, including sexual harassment.

So what we're suggesting here is we call this out. I think it's implicit in what we've already got. But, of course, what it also does is tie it into some language further below, which says boards should be accountable to develop and implement policies, procedures, but note also training, and internal reporting structures to ensure they can fulfill.

So I think it puts some extra specificity around, okay, well, you can say you're concerned about this, but what would it look like if the company was really introducing a full-blown program. And I think training is obviously a very important part of that, as we know.

Thank you.

CHAIRPERSON JONES: Okay. Thank you. Thank you for the report.

And I just would like to reiterate what Mr. Eliopoulos indicated earlier, that this is an information item, that it will come back next month as a first reading, so you have another bite at the apple. And then the following month, we will be looking at a second reading for a final vote. So there's plenty of time to voice your concerns or opinions. So with that, Mr. Juarez.

ACTING COMMITTEE MEMBER JUAREZ: Yeah. Thank you, Chair. I want to just -- and this is really in line with the fact that we'll get another bite at the apple, as you say. For hopefully next month, what I -- what the treasurer is hoping we can have is a robust discussion about his original proposal. We've been the recipients of some -- both the analysis that was done here, as well as some other information regarding that particular proposal and why it may not be as -- as logical and as fitting for the Board to adopt as we might otherwise hope.

And so what we're hopping is that when you come back in May, that we can engage you in a robust discussion about some other alternatives that would increase the transparency related to how we deal with companies who are not making significant progress toward diversity on -- on their boards, both in terms of -- in terms of gender as well as ethnicity. And hopefully taking those issues forward, we can come up with a -- what we believe would be a reasonable approach to take, if, in fact, quotas is not the right way to approach it. So I'm hoping that with all that said, that the Treasurer would be indulged to have a more robust conversations at that point.

CHAIRPERSON JONES: Yes.

ACTING COMMITTEE MEMBER JUAREZ: Thank you very much.

CHAIRPERSON JONES: Okay. Mr. Eliopoulos.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Sure. Yeah. The -- in all cases, it's always helpful to have any -- you know, any suggestions or ideas ahead of time, in writing --

ACTING COMMITTEE MEMBER JUAREZ: We will.

CHIEF INVESTMENT OFFICER ELIOPOULOS: -- if possible, because then --

ACTING COMMITTEE MEMBER JUAREZ: And on that score, we will provide you something before the next meeting.

CHAIRPERSON JONES: Great.

INVESTMENT DIRECTOR SIMPSON: Thank you. We did -- thank you very much for the letter in November.

It was greatly appreciated, because I think CalPERS, like many other investors is right at that point of saying we have the evidence that diversity really makes a difference on risk management. We've got some very good insight into how it's good for performance in terms of improving returns. So, what on earth is holding back the progress with the companies?

And I think the studies that are coming through, one at the end of December that Spencer Stuart provided, give us a clue. One is that companies are not opening up board seats. The retirement ages are going up, and companies are also removing retirement ages. So that puts a focus, we think, probably on the issue of tenure. Now, we did last year introduce the notion of 12 years being -- it's not that you have faded from glory, but that your independence might well be in question. So we have got, and Simiso will talk more about this in a moment.

We are thinking that we've got to continue the march on majority voting, because if we can't vote against directors, which is the case with many of the companies where they lack -- they have diversity free zones on the Board, but we can't vote on directors to vote them out, or we don't have proxy access, so we can't put alternative candidates forward. We've got both hands tied, maybe one leg too. We can't do much.

So we've got to get those governance rights in place before we can then effectively engage. However, and I think we did put a bit of discussion on this in the memo itself to say, CalPERS current definition of diversity is all encompassing, and I think that's absolutely the right way to be.

The second thing is we're not limiting the goal. Whether we call it a quota or a target, we're not saying boards should have this percentage of this category of director or that percentage. And I think that what the principle is based on is this idea that we want boards to access all the talent that's represented in society in their workforce, in their markets.

And we may well find, if that's the case, that 30 percent is not, as you -- as, Mr. Juarez, I think we were saying at the last meeting, this may be a poverty of ambition. And I -- just one data point that I want to share with the Investment Committee is we were really pleased to see in December Spencer Stuart's annual survey of new board appointments. They were tracking the S&P 500, which is, of course, the biggest companies. They're the leaders. They're the ones that set the pace.

For the first time ever, they were able to report that a majority of new board appointments were women and people of color. And that is, to me, the sign that the investor voice is being heard, but also that companies are getting it on the business case.

Now, that is a leading indicator. It's not -- it's not getting us to where we want to be. But I think that, you know, with some of the other initiatives, which Simiso mentioned last month, we are in a position to actually build out a really robust plan. And at the moment, we've got, as we highlighted in this agenda item, some very specific things that we're going to be doing. And I think Simiso, if you'd like to run through those three -- those three areas as --

ACTING COMMITTEE MEMBER JUAREZ: Yeah, if I could, before Simiso goes. I just would say we're as much interested in the aggregate as you said. And it's good new to hear that, in fact, in general, that the Board assignments are both -- reflect both gender and ethnic diversity. But I do think that we also want to look at progress of individual companies. And that's where I think the Treasurer has held out some concerns in talking to other investors as to whether or not certain companies are even moving the needle at all. And to the extent they're not, should we be taking a specific approach or proxy toward them?

INVESTMENT DIRECTOR SIMPSON: Yes, absolutely.

ACTING COMMITTEE MEMBER JUAREZ: Anyway, but...

INVESTMENT DIRECTOR SIMPSON: Simiso.

INVESTMENT DIRECTOR NZIMA: Thank you, Anne. Simiso Nzima, Investment Director, Global Equity.

As discussed in the March IC, staff really spent considerable time in terms of trying to determine what action plan to try and progress the issue of corporate board diversity. And as listed in the memo really, we have three -- a three-pronged approach in terms of our trying to affect this.

In the first approach really -- is really voting against any combination of board chairs, nominating and governance committee members, as well as long tenured directors. And as Anne correctly pointed out, really the issue of board refreshment and people on staying boards for a long term -- one of those obstacles in terms of trying to improve on board diversity. So we're going to be -- this is something which we are doing in this current proxy season where we actually are voting against these following the engagements that we started in July last year.

The second thing that we're going to do, again in terms of the governance framework, and I think this is something which the Board President raised last time around the issue of majority vote. That if you don't have majority vote, do you then have the ability to sort of move directors off the board and create that opportunity for -- for board refreshment that your vote that you're actually casting has teeth.

So starting this fall, we are actually going to be writing to companies that lack diversity -- that lack the broad sense of diversity, and that also do not have majority vote asking them to adopt majority vote. Failure to which we actually are going to be filing proposals at those companies. So this is something which really, really matters to us. We want to put some teeth around the issue of voting on this diversity initiative.

And the third thing that we're really looking at is around coalition building, and we are really lucky. We have -- you know, we've just done the Climate Action 100, the global coalition, which Anne Simpson here helped, you know, put together that with the team. So we have sort of this in-house expertise in building coalitions and we want to try and sort of use the same model in terms of looking at the issue of Board diversity we'll be working with other, you know, asset owners and asset managers, in terms of trying to see whether we can come up with a market approach, which is a market consensus, in terms of how can we get companies to actually, you know, increase their board diversity, again based on the broader definition of diversity.

And, at this point, I'll pause and take any questions.

CHAIRPERSON JONES: Okay. We still have some questions.

Ms. Mathur.

COMMITTEE MEMBER MATHUR: Thank you. Well, first of all, again, I know I raised this last month, and your response has been -- the team's response is exceptional. I'm really pleased with this language. It clearly took a lot of thought and really addresses, I think, the two important dimensions. One is the board's role in establishing a corporate culture that is zero -- has zero tolerance for harassment. And then also sort of on the human capital management practices side, incorporating that more fulsomely. So I'm really pleased with the work, and I just want to say thank you for that.

And it's -- it's -- you know, it might seem like -- like to some, like it's an ancillary issue. But in today's world, and, you know, Forbes and others have reported this, 80 percent of a company's assets are intangible. And that largely is brand. Sometimes it's, you know, IP, et cetera -- intellectual property, et cetera.

But a lot of -- a significant portion of that is brand. And we have seen companies lose significant value as a result of these -- of crises around sexual harassment. So I think it is essential that this be managed effectively by corporate boards and corporate executives. So this goes a long way to getting us there, and I'm -- to getting us -- to helping us to guide these companies as we can moving forward. So I'm really -- really pleased with that.

And thank you also, Simiso, for sort of expanding on your approach around diversity, because I do think those two elements of focusing on the majority vote component, which is good for us on a number of issues. It's not just with respect to diversity, but with respect to other issues that we also think are key to corporate value, as well as the collaboration component, which I think only makes us more effective. So appreciate the continued focus on that in the expansion of the work.

Thank you.

CHAIRPERSON JONES: Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. Thank you, Mr. Chair. I, too, want to echo Ms. Mathur and say this -- we asked for this last month -- well, she asked for it last month, and you guys produced an amazing report, and I really appreciate it.

I like the language I'm seeing here. I also echo that I'm looking very forward to working with others to implement this. But I just -- I just wanted to say that I think this is an amazing report. I like the language. I'd had one question on one -- where did it go? There it is.

So the voluntary arbitration, and then the following language in the following paragraph that talks about CalPERS supports the disclosure of settlements, including those on sexual harassment involving an executive or member of the board to be disclosed. My only concern, I'm glad we're going to voluntary arbitration. But my only concern is, is the disclosure -- if they go to arbitration -- if they decide to go to arbitration, right, can there still be a clause that the person accepts that precludes it from being disclosed?

You know what I'm saying? So I -- are we opening a door for the employer to still hurt the harassed person?

INVESTMENT DIRECTOR SIMPSON: Do you mean what gets called a gagging clause --

COMMITTEE MEMBER TAYLOR: Right, right, right.

INVESTMENT DIRECTOR SIMPSON: -- so you end up in violation of some other part of your contract?

It's -- I think it's something we'd want to talk to our Legal Office --

COMMITTEE MEMBER TAYLOR: Okay.

INVESTMENT DIRECTOR SIMPSON: -- colleagues about, because this is all very sensitive about rights under contract, rights to privacy, regulatory requirements on disclosure of material settlements. So we want to make sure we're striking the right balance here.

COMMITTEE MEMBER TAYLOR: The material is very -- I mean, it's -- material can be very large, right, most of the time. So if it's a million dollars or $150,000, that's not going to be material enough to disclose.

INVESTMENT DIRECTOR SIMPSON: And that's really why we're talking about settlements rather than simply supporting the materiality definition, because what's material to a company would be very different to what's material to an individual.

COMMITTEE MEMBER TAYLOR: Right.

INVESTMENT DIRECTOR SIMPSON: And also what we want as a very long-term owner is insight into the standard of ethics in a company. And if you find that there is a cluster of perhaps very small settlements around an executive, or attached to a Board member, that poses a real question about that leadership. And then we're in a position having got majority voting introduced everywhere that we need it to hold that board accountable.

So I think we come across this definition of materiality and other settings as well like climate change.

COMMITTEE MEMBER TAYLOR: Right.

INVESTMENT DIRECTOR SIMPSON: We've really, with the regulators and other, wanted to hold the line and say it's in the eye of the beholder. Materiality is like beauty, what's material to CalPERS over generations, over our portfolio may look different to what is considered material by a company. And at the moment, it's in their gift to define it, but, you know, there is a high court, Supreme Court case in the U.S. which defended the idea that the investor decides what's material. And I think that's something we really need to hold on to, not just for this type of issue around human capital management, but as I said, we run into the same thing with issues like climate change.

COMMITTEE MEMBER TAYLOR: Thank you, Anne. And I also really wanted to tell you that I like the -- I really like the language about the promoting diversity, inclusion, innovation, fostering trust between employees, management, promoting ownership and accountability for an ethical corporation, because as I think about these corporations such as Wynn that lost so much money or the Weinstein Company, there are -- there would have to have been, I would assume, some sort of culture around this. I believe that's still going on in, I'm just going to not say the corporation right now, but -- and another corporation, that has the same kind of culture.

And I think that if we -- if we have this language, and we're promoting this, and we are using our proxy voting in our engagement, that we can maybe help bring -- bring to light this corporate culture that allows this kind of harassment or lack of diversity or wherever we're engaging at that point.

So thank you.

CHAIRPERSON JONES: Ms. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman. Very appreciative of the work here. I did have something I wanted to put out for consideration when this comes back. On page 15 of attachment 3 where the new language is added regarding corporate culture, is there a way to tie the disclosure section of this language to page 26 relative to the clawback policy to ensure that the settlement affects executive compensation?

INVESTMENT DIRECTOR SIMPSON: Thank you for making that point. I think we should come back to you with some language.

COMMITTEE MEMBER YEE: Yeah. Okay.

INVESTMENT DIRECTOR SIMPSON: It just seems to me to be absolutely the right connection --

COMMITTEE MEMBER YEE: Right.

INVESTMENT DIRECTOR SIMPSON: -- especially now that we've expanded the clawback language --

COMMITTEE MEMBER YEE: Right.

INVESTMENT DIRECTOR SIMPSON: And thank you.

COMMITTEE MEMBER YEE: And thank you for responding to our letter. Yes.

INVESTMENT DIRECTOR SIMPSON: -- to understand that earning that bonus is contingent on not doing harm, not doing damage. And, however, you may have hit those numbers financially, this is an aspect of potential damage to the company --

COMMITTEE MEMBER YEE: Right.

INVESTMENT DIRECTOR SIMPSON: -- because you've not been respectful with your -- with your employees. That seems to me absolutely the right point, so --

COMMITTEE MEMBER YEE: Great. Thank you.

INVESTMENT DIRECTOR SIMPSON: We can follow up with that

CHAIRPERSON JONES: Okay. Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Mr. Chair.

So since Controller Yee raised the issue of clawbacks, so that gets into the area of compensation. And I -- last month, we had an information item on this, and it was on the say-on-pay part, and the -- again, this is for next month. I'm suggesting this would be I think a top -- hopefully, a topic of conversation that the Glass

Lewis grading system that we've decided that D and F we vote against. If it's A, B or C, C under certain conditions we might vote against.

But, you know -- my kids are now grown. I do recall that when they brought home their grades, if they had an A or B, life was pretty good. If they had a C, it was time for intervention. So I'd like us to consider maybe some further word direction in this category on if they're rated C should that be a no vote.

So again, another topic to add to the conversation next month.

CHIEF INVESTMENT OFFICER ELIOPOULOS: I'm -- I guess we'll request investment, you know, direction. I think one of the -- one of the disciplines we tried to put in place, and this isn't directed to this question in particular, is that we tried to get all of the possible topics to take up so that we could have a discussion in March. We've added two discussions, one on diversity, one on corporate culture for this month, really heading in to try to get the precise language ready for the Total Fund Policy to be debated and discussed.

So the number and different types of topics that are being -- now being teed up for discussion in May and June is just going to prolong -- it's messier than what we collectively as a board and staff had set out at the onset.

COMMITTEE MEMBER SLATON: Yeah.

CHIEF INVESTMENT OFFICER ELIOPOULOS: But the -- you know, the important thing is to try and get these topics, you know, discussed and resolved. I think on this one, just in one final piece, we have not included this notion of, you know, inserting, you know, a third party like Glass Lewis's ratings into our principles. That's just one piece of information that our professional staff uses to vote our proxies.

COMMITTEE MEMBER SLATON: Right. And I'm not suggesting that the wording go into the policy. I think that's much too lower detail level, but I do think that we should have a conversation about how comfortable we are with the -- under this policy, what you're then implementing when it comes to that particular area of decision and whether, in fact, we want to consider some more direction, but not as a modification to the policy.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Okay.

CHAIRPERSON JONES: Okay. Yeah, I think that's important, because as Anne and Ted will tell you that when this document was developed, it was out of the outgrowth of every month wanting to make changes to it. And so we had to say let's step back. And we set up a subcommittee and of the Committee to go and spend five to six months to come to this place. And so what we don't want to do is go back into this every month changing the documents, so --

COMMITTEE MEMBER SLATON: Exactly. No, I go tit.

CHAIRPERSON JONES: -- but certainly it's for discussion purposes, but not necessarily every month changing the document. So we need more time to let that play out. So, okay.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Thank you, Mr. Chairman. I appreciate all the work you all did bringing back with Committee direction the language. I just have a couple concerns, and little bit along the lines of what one of my fellow Board members said.

Settlements by their very nature admit no wrongdoing by either party. I mean, I've heard thrown around protect this person, protect that person. The issue is typically settlements. There is no admission of liability on either side. It is oftentimes, and you see this in greenmail litigation, A -- certain types of ADA lawsuits that you enter settlement. You could either fix the problem or you pay a cash settlement.

So I'm a little concerned when we talk about wordsmithing, that, first of all, any settlement implies wrongdoing. Which then leads back to the question, if, in fact, the settlement is the result of wrongdoing and we are using language that says work-free -- workplace free of sexual harassment, how do you allow a settlement to occur if the underlying issue that's reported to the Board derives from sexual harassment?

I just want to make sure, because we're wordsmithing here. The language we're using is, "Respectful treatment of employees; efforts to promote diversity, inclusion, and innovation; providing a work-free -- a workplace free of sexual harassment". So we set that as the standard, it must be free of sexual harassment.

Then we say, "including those involving require disclosure of material settlements" -- we still have to define -- I think the issue is what's the word "material"? Is it a dollar, is it a million? So where are the definitions for this? And I look back at the CII materials.

And then it says, "..including those involving sexual harassment. CalPERS supports settlements including sexual harassment involving -- disclosure involving and executive or remember the Board".

So the resumption is -- I'm just to reconcile, because we're supposed to have a zero tolerance policy -- is if, in fact, you have a settlement related to sexual harassment that didn't disclose to the board, is that employee is presumed to be still a member of the board or working there?

So it's either zero tolerance for sexual harassment, settlement for sexual harassment, or we've just had a settlement. So I'm just trying to get to what the end -- end game is.

INVESTMENT DIRECTOR SIMPSON: Yeah. No, thank you -- thank you for the question. The model -- the governance model that this reflects is that the board oversees management, and then management has responsibility for implementing the policy.

So would say the chief executive, for example, has the responsibility for her or his executives to roll-out the zero tolerance policy. And the way that the board checks if the chief executive is doing her job properly, or his job properly, is by having a flow of information. And then the board says our policy is zero tolerance, and has the flow of information to say this chief executive is not implementing our policy. So that's -- that's the flow of information.

The second question that you raise about the definition of materiality, that here is in the context of the regulators. So how it's approached in the United States, defined by the SEC the materiality under, for example, U.S. GAAP set by FASB is somewhat different to how it's set under IFRS, which is the International Accounting Standards Board, where -- you know, the regulatory bodies in other markets.

So we did originally have some language that we thought about referencing the SEC in particular. And then thought, well, that's not going to work for a global portfolio. So we substituted financial reporting standard setters generally, because in a few places they don't, require disclosure of material settlements, and that would capture -- but the materiality definition will be market specific.

VICE CHAIRPERSON COSTIGAN: So I -- sorry.

INVESTMENT DIRECTOR SIMPSON: Then we are proposing -- and it's a very helpful discussion. We are proposing that due to the significance of their impact on the company's leaders, if an executive, or a Board member, goes into a settlement, that that is a piece of information that should be disclosed to shareholders, but it's something that could not be enforced. It's not --

VICE CHAIRPERSON COSTIGAN: I just want to make sure I understand --

INVESTMENT DIRECTOR SIMPSON: A regulator couldn't enforce that.

VICE CHAIRPERSON COSTIGAN: -- what CalPERS policy is --

INVESTMENT DIRECTOR SIMPSON: We're requesting that information.

VICE CHAIRPERSON COSTIGAN: -- is that the CEO -- so underneath the CEO if you have a zero tolerance policy --

INVESTMENT DIRECTOR SIMPSON: Yeah.

VICE CHAIRPERSON COSTIGAN: -- and short of zero tolerance that a harasser is allowed to continue to work after a settlement agreement, that's to be reported to the CEO who then reports that to the Board.

INVESTMENT DIRECTOR SIMPSON: Um-hmm.

VICE CHAIRPERSON COSTIGAN: And if the CEO continues to allow that employee who has entered into a settlement agreement -- and I'm just saying, admitting to the sexual harassment.

INVESTMENT DIRECTOR SIMPSON: Um-hmm.

VICE CHAIRPERSON COSTIGAN: We're not even just talking about a standard settlement agreement -- it would be our position that that CEO should be terminated as a zero tolerance policy?

INVESTMENT DIRECTOR SIMPSON: We're not -- we're not reaching in over the board into the management responsibility. We want the board to oversee management, and for the board to have a flow of information that's going to enable them to hold management accountable.

That's --

VICE CHAIRPERSON COSTIGAN: But under that scenario -- I'm sorry.

INVESTMENT DIRECTOR SIMPSON: -- the logic. If it can be improved, we'd be -- we'd be glad to improve it --

VICE CHAIRPERSON COSTIGAn: Well, under that scenario --

INVESTMENT DIRECTOR SIMPSON: -- if you think it's flawed.

VICE CHAIRPERSON COSTIGAN: -- that's not providing a workplace free of sexual harassment.

INVESTMENT DIRECTOR SIMPSON: But the workplace free of sexual harassment is going to be achieved by the executives and the board's role, and we hold the board accountable. The board is there to make sure -- and they can't do that unless they have a flow of information. And at the moment, I think it's quite unusual for boards to get that level of detail about what's going on with sexual harassment.

VICE CHAIRPERSON COSTIGAN: And I'm sure, as you understand, I know this issue on the State side inside and out. I mean, as the board I sit on, we deal with sexual harassment all the time. I know what the State policy is. In fact, as you will probably have recently read in the paper, the Governor has convened a task force, because we've had an issue relating to how sexual harassment cases and settlements were handled, who was actually responsible.

I mean, when you talk about the fact that the State was settling cases, and whether and Agency Secretary, Department Director, CalHR, SPB were signing off on this is we're not a party. I mean, this is part of it is we are not a party, to the underlying litigation or the underlying complaint.

INVESTMENT DIRECTOR SIMPSON: Um-hmm.

VICE CHAIRPERSON COSTIGAN: And so I am saying, first of all, I believe it's a zero tolerance policy, right? And if you're settling a case that actually has underlying facts related to sexual harassment, what I'm more wanting to know is what happened to the employee that did it? Are they still employed? How did they correct the actions?

This doesn't necessarily change the behavior. This just means - and I'm not picking on you Ted. But Ted did something wrong. He works for -- he works for a private company. He still stays in and we paid out a million dollar settlement and that's reported.

What I don't see in this policy is what's the -- that's why I just asked the pointed question about holding the CEO accountable.

INVESTMENT DIRECTOR SIMPSON: Right. Yep.

VICE CHAIRPERSON COSTIGAN: If the policy is it's a work-free place environment, I'm not as concerned about the settlement as I am about getting rid of the bad person.

INVESTMENT DIRECTOR SIMPSON: Right.

VICE CHAIRPERSON COSTIGAN: And I don't want us to create a clutch that I've just reported -- created a new report. The Weinstein is a prime example.

INVESTMENT DIRECTOR SIMPSON: Yep.

VICE CHAIRPERSON COSTIGAN: The argument could have been we could have reported every settlement. He could have still been there.

INVESTMENT DIRECTOR SIMPSON: Yeah.

VICE CHAIRPERSON COSTIGAN: How does that accomplish the policy goal of creating a work-free -- workplace free environment even if they just report it all, or the Wynn matter. I understand the exact same thing. Again, the difficulty I have on this, and this is just a little bit of the lawyer in me is I don't like Mr. Wynn. I read the same articles. The question is we haven't had a trier of fact or an arbitrator make a determination that anything happened.

You had an allegation and you had a payment.

That's really -- I know it's the emotions around it. And those are sometimes difficult to peel back, should that have been reported. But then the question really becomes, just to carry it out is, I now as a board member have knowledge, because of the settlement --

INVESTMENT DIRECTOR SIMPSON: Um-hmm.

VICE CHAIRPERSON COSTIGAN: -- that Ted has engaged in -- sorry, Ted. Just pointing at you.

INVESTMENT DIRECTOR SIMPSON: Someone.

VICE CHAIRPERSON COSTIGAN: -- someone --

COMMITTEE MEMBER MATHUR: Maybe we should use somebody else.

VICE CHAIRPERSON COSTIGAN: Someone over there --

CHIEF INVESTMENT OFFICER ELIOPOULOS: Please like use a different example.

(Laughter.)

VICE CHAIRPERSON COSTIGAN: -- someone over there engaged in sexual harassment. So now what happens to me as the Board member, because now I have knowledge, because I've signed off. You've reported it to me.

INVESTMENT DIRECTOR SIMPSON: Um-hmm.

VICE CHAIRPERSON COSTIGAN: So what's my duty? That's -- that's all I'm trying to get at is you're imputing in me that I now knew what the settlement was, I knew what the terms of the settlement was, I knew what the allegations were, but I've never been the trier of fact. I've actually never heard the case, never heard the matter. What I'm asking to be done is approve matter X --

INVESTMENT DIRECTOR SIMPSON: Um-hmm.

VICE CHAIRPERSON COSTIGAN: -- based upon two parties, who were represented who came forth with an agreement, or am I missing something in -- I understand the policy goal we're trying to get at --

INVESTMENT DIRECTOR SIMPSON: Um-hmm.

VICE CHAIRPERSON COSTIGAN: -- which is get rid of the harassers, clean up the culture.

INVESTMENT DIRECTOR SIMPSON: Right.

VICE CHAIRPERSON COSTIGAN: I'm not sure this actually accomplishes that goal. More transparency, more disclosure is important, but I am concerned about you're asking me as a Board member -- now I'm imputed knowledge, because every settlement that comes in front of me, now begs the question, even if the parties agreed not to disclose what the underlying facts were --

INVESTMENT DIRECTOR SIMPSON: Um-hmm.

VICE CHAIRPERSON COSTIGAN: -- is that correct?

INVESTMENT DIRECTOR SIMPSON: So the place -- and thank you, because these are really important points. And I couldn't agree more to President's comment that this has such wide -- wide effects on a company's ability to recruit, to retain, to motivate employees. The place where I think the issue you're raising, Mr. Costigan, is referenced - and maybe we can improve on it, and very open to your thoughts - where we say one policy and we come to line four, the sentence which goes, "...and the mechanisms through which the board learns about employee complaints...", so to your point, this is the flow of information.

And then the second part says, "...and how the claims are addressed". Now, we could -- we could put something more explicit there, for example, "and consequences". In other words, so the board knows if somebody's been disciplined, if they've been sent to training, whether they're --

CHAIRPERSON JONES: Ms. Simpson.

INVESTMENT DIRECTOR SIMPSON: Yes.

CHAIRPERSON JONES: I'm going to ask that you've heard the concerns, and when you go back -- because we've got two more bites at the apple.

INVESTMENT DIRECTOR SIMPSON: I'm sorry, yes, we have.

CHAIRPERSON JONES: And I just don't think we would wordsmith here at the meeting. So you've heard his concerns, and take them back, and come back to your views on response to his concerns, and we'll deal with it next month, okay?

INVESTMENT DIRECTOR SIMPSON: Okay.

CHAIRPERSON JONES: Thank you.

Ms. Yee.

COMMITTEE MEMBER YEE: Thank you. Just a quick comment. Mr. Slaton brought up the issue of executive compensation, and not with respect to this policy. But I was ready to raise it for the next item, and if we could have a little bit more time to just talk it -- talk through how we might want to proceed on the executive compensation issue in the next item rather than here, I'd appreciate it.

CHAIRPERSON JONES: Okay. I'm sorry, I missed the first part of your comment.

COMMITTEE MEMBER YEE: No, no. I'll raise it on the next item.

CHAIRPERSON JONES: Okay. Well, I'll talk to you about it.

COMMITTEE MEMBER YEE: That's okay.

CHAIRPERSON JONES: Okay.

COMMITTEE MEMBER YEE: I just didn't want the truncated conversation about executive compensation that Mr. Slaton --

CHAIRPERSON JONES: Oh, I see.

COMMITTEE MEMBER YEE: -- brought up to be concluded with just his comments. That I was going to raise it additionally for the next item as well.

CHAIRPERSON JONES: Okay. Okay. So this Item 6b, I understand Mr. Steve Silberstein, you had signed up 6c, but I understand you wanted to talk on 6b, is that correct, Mr. Silberstein?

MR. SILBERSTEIN: 6c.

CHAIRPERSON JONES: Oh, it is. Okay. Someone told me -- okay. All right.

Okay. Okay. Then so that concludes the discussion there. Then we will move to have to Item 6c, Corporate Governance Update.

CHIEF INVESTMENT OFFICER ELIOPOULOS: This we'll be with turning over to Simiso. And I think Simiso is here.

INVESTMENT DIRECTOR NZIMA: Thank you, Ted. Simiso Nzima, Investment Director, Global Equities.

Really, this agenda item provides additional details around our shareowner campaigns. At the March IC we talked about some of the shareowner campaigns around proxy access, majority vote, and climate risk reporting.

What we're providing under this agenda item really is to show the actions that we are undertaking to support those shareowner campaigns associated really with proxy solicitation, which is the teeth really, you know, falling back on these other issues that we're trying to address.

And as a reminder to the Board really, we run proxy solicitations for proposals that are filed either by ourselves or that are filed by others, but on issues that CalPERS care about, issues that are a priority to us, for example, board diversity and so forth.

And what we have here, we've actually listed a total of 55 solicitations, really compared to 33 last year. This is in the -- in the agenda memo that you have. And the numbers, while they are set, you know, at 55 right now. That number really is going to change, because as companies settle, that number could actually come down.

But on the other hand, we still return the flexibility to run additional solicitations, which are not listed here. So one example, as I was talking about this, last week we filed to run a solicitation at a company around the issue of Board diversity. So this was a company which we had engaged. They didn't respond to our engagement on the issue of board diversity. And a different entity filed a proposal on the issue of board diversity policy. And we're running that solicitation for them.

So -- again, so these numbers are not set in stone. They are going to change, you know, potentially increase again depending on the issues and proposals that are out there.

Just the highlight on page two of three, just to show that for majority vote in a proposal, even though right now we're showing a number of 24 proxy solicitations, that number is likely to go down. For example, last year, we ended up not running any proxy solicitations around the issue of majority vote, because the companies that were targeted settled with us, and then we didn't have to run any solicitations.

And on proxy access, that's part of the work that we are doing helping out the New York City funds in the board accountability project. We've done this for a number of years, where we have -- they have created -- or targeted a number of companies on proxy access, companies that are selected based on board diversity, climate risk, executive compensation, and other governance provisions, and we have run solicitations on those. And so we expect to be running about 16 this year.

And then on climate risk reporting, right now, we expect to be running about 14. Last year, we ran 14 proxy solicitations, and thus sort of the same number, unless if some of those actually withdraw. That really concludes this agenda item, and we'll take any questions.

CHAIRPERSON JONES: Okay. Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. Thank you, Mr. Chair.

I just had a quick question. So on the 14 climate risk, is that who you -- I may have lost place while you were talking. Is that you who were talking about that you were engaging with the New York funds? Was that the part of it or was it above that, the one above it?

INVESTMENT DIRECTOR NZIMA: No, the proxy access are the one that we're actually working with New York City funds. We've done this, you know, historically.

COMMITTEE MEMBER TAYLOR: Okay. The first one, proxy access.

INVESTMENT DIRECTOR NZIMA: The first one yes.

COMMITTEE MEMBER TAYLOR: Okay.

INVESTMENT DIRECTOR NZIMA: Yes, the climate risk is different filers. Just like we did last year, we just helped in terms of running solicitations on two degree scenarios climate risk reporting proposal. So it's specific to two degree scenarios.

COMMITTEE MEMBER TAYLOR: Are we engaging with PERS -- STRS, I'll sorry, as well on this?

INVESTMENT DIRECTOR NZIMA: Not on -- not specifically on climate risk, but we -- we talked CalSTRS in terms of some of the activities that they're -- they're doing. Especially, we've worked together on board diversity just to find out what they are doing in that space. And that's something which we're looking at if they are -- if they file, and if they are -- you know, on diversity policy, that's something we'll work with them in terms of, you know, running solicitations on that issue.

COMMITTEE MEMBER TAYLOR: So finding out and working with sound like two different things, so I'm a little confused. Are you saying that we actually do work with STRS on a number of issues?

INVESTMENT DIRECTOR NZIMA: We have. So, for example, we work with them on the California -- the board diversity project involving California companies. This is something we've worked with them, I think, starting in 2014 or 2015, where we've engaged collaboratively California companies that lack gender diversity. That was really specific to gender diversity.

COMMITTEE MEMBER TAYLOR: Okay. So -- but we don't -- so on gender diversity, board diversity, we are engaging with STRS. On climate, it's the New York fund. Have we thought about bringing a bunch of the funds together on a lot of these proxy issues, climate, diversity. Any other -- anything -- because these are pretty big issues, right? I would think that having a couple of trillion dollars worth of money would make a big difference. And I was just wondering if we were working in that -- going that direction.

INVESTMENT DIRECTOR NZIMA: That is something -- thank you for that. That actually is something that we're looking at. When we spoke about the diversity initiative and building coalitions, and talking about really modeling some of the coalitions on Climate Action 100, which we are working with, you know, a larger group of investors, that's something which we're looking at.

And with specific to the climate risk reporting proposal, we have weekly calls which are organized by Ceres under the Carbon Asset Risk Campaign. So we're actually participants on a weekly basis on those calls. And this is where we've actually met that indication that we'll support and run proxy solicitations really best on, you know, every participant on those Ceres organized calls.

COMMITTEE MEMBER TAYLOR: Okay. Great. And then I just -- one other question. These proxy -- are these letters the 16, 14, 24, or are they engagements? I'm a little -- I don't know if I got it was both or if it was one or the other.

INVESTMENT DIRECTOR NZIMA: So the proxy solicitation -- so just -- I'll just to sort of maybe explain what the process is. So with proxy solicitations, what we do, we file a shareowner letter with the SEC really saying now we're going to be talking to shareowners and asking them to vote for a particular proposal. So we file that letter, then we engage the proxy solicitor who then sends out letters to shareholders. Typically, we go as deep as anyone holding 20,000 shares of any particular company. That allows us to cover about 90 percent of the share holding of a company.

So we send letters through a proxy solicitor explaining why we think the particular issue -- why they should vote in a certain on a way particular issue. And we then also try and talk to some of the larger shareholders in terms of those companies who are running solicitations.

So really, it's both letter writing, in terms of trying to reach as many of the shareholders as possible, but also there's an element of engagement, because we couldn't get with the company, and explaining also why that -- you know, we think that's the right thing to do.

COMMITTEE MEMBER TAYLOR: And that's with the larger shareholders?

INVESTMENT DIRECTOR NZIMA: We engage with the large shareholders, yes.

COMMITTEE MEMBER TAYLOR: Okay. Okay. Great. Thank you. You answered a bunch of my questions.

Thank you.

CHAIRPERSON JONES: Ms. Yee.

COMMITTEE MEMBER YEE: Thank you, Mr. Chairman. A few questions here. So the principles or the policy that we just discussed the sexual harassment policy disclosure principle, are those all going to be part of what we factor in in terms of the activity going forward, or is it too soon to kind of make those a part of the consideration? So the revised principles in terms of how they'll factor into the shareholder solicitation?

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah. I think it's -- since the policy hasn't been adopted yet --

COMMITTEE MEMBER YEE: Yeah. Okay.

CHIEF INVESTMENT OFFICER ELIOPOULOS: -- and we still have some, you know, wordsmithing to go --

COMMITTEE MEMBER YEE: All right.

CHIEF INVESTMENT OFFICER ELIOPOULOS: -- this is really our proposed solicitationS for this season, which are on -- which are ongoing and happening, you know, this month, next month --

COMMITTEE MEMBER YEE: Okay.

CHIEF INVESTMENT OFFICER ELIOPOULOS: -- and the following month. For the following season, then that could be an area --

COMMITTEE MEMBER YEE: It will be in place?

CHIEF INVESTMENT OFFICER ELIOPOULOS: -- of priority that we would collectively agree to as priorities as part of the proxy season setting that we do in March.

COMMITTEE MEMBER YEE: Okay. Great. And then I guess just an assessment maybe, as you're working with some of our partners, about how successful you think the climate risk proposals will be with the clamping down of the SEC in terms of what they're couching as micromanaging as we go forth on those.

INVESTMENT DIRECTOR NZIMA: Yeah. We've seen sort of, you know, some proposal that have failed to go through in terms of the SEC, you know, issuing a no action letter. But I think what we've also seen is a number of companies really -- you know, especially with the successes we saw last year, I think we're seeing companies actually being open to settlement, especially when they know that a lot of the big shareowners are including just -- not just ourselves, but, you know, some of the big asset managers have come out publicly in support of climate risk reporting.

I think in terms of what the SEC does, whether it's they issue a no action letter, that's something which really is -- is, you know, outside of our purview. But once it's out there in terms of the voting, I would expect that if the company has not come out with climate risk disclosures along the TCFD guidelines or at least something which is acceptable would expect that shareowners will continue to support those proposals to the same sort of rate as probably last year, if not higher.

INVESTMENT DIRECTOR SIMPSON: Just to add to a point on that, there has been a new staff approach on shareholder proposals, and one which I think on the basis -- you know, looks sensible, which is that when they're doing the review process, there's a shareowner proposal, and then the company requests that it not go to the vote, they want to know if the Board has discussed the proposal.

Well, this is actually something really -- really we could only say, yes, that's a very important thing to know, is it just the no -- the request for the no vote? Is -- sorry, the no action letter preventing it going to the vote is coming say through the legal department or public affairs, or has the Board actually looked at it. So that's a good thing.

At the same time, there are a couple of proposals. And I think Anadarko might be the example you're thinking of, but also one at Apple, where the staff decision was to prevent the proposal going forwards, even though it referred to, in one case, climate change. The thing that they didn't like was the fact that the proposal was calling for a specific target or a date by which certain things would happen.

And that was quite a well established view that you shouldn't be trying to micromanage. You shouldn't be getting shareholders to tell management to do specific things.

So I think Apple's -- the two degrees proposals, which we've been supporting so far have been continued to be allowed through the process.

COMMITTEE MEMBER YEE: Good. Great.

INVESTMENT DIRECTOR SIMPSON: And some other proposals which are getting into the nitty gritty saying we must have this emissions target by this date. Those have been viewed by the staff. But actually, I think the SEC review this season has been improved by requiring the company to say whether the board of directors has actually looked at it.

So that kind of, you know, means companies have to raise their game when they're going forward to ask for a no-action letter.

COMMITTEE MEMBER YEE: Okay.

MANAGING INVESTMENT DIRECTOR BIENVENUE: Ms. Yee, the one thing I would add to that is I -- personally when I saw this item and saw the numbers, I was very encouraged to see last year we filed 15 proposals and we got one settlement, right? So that's around, you know, seven percent or so settled, right?

This year, we had 20 proposals and got six settlements, right --

COMMITTEE MEMBER YEE: Yeah.

MANAGING INVESTMENT DIRECTOR BIENVENUE: -- which is around 30 percent. I do think that Anne -- you know, Anne's made this point in the past and Simiso just made it, that in the wake of Exxon we're starting to see momentum here, and that's very -- you know, very encouraging to me. So progress won't happen as fast as we all want it to, but it seems to be happening.

COMMITTEE MEMBER YEE: Okay.

CHAIRPERSON JONES: Okay. Thank you. So that concludes the --

COMMITTEE MEMBER YEE: Just one item and I'll just tee it up, because I think others may want to speak to it. But you spoke last month about the voting enhancement with respect to executive compensation. And I guess what I'm still kind of bothered by is just kind of this Glass Lewis grade C kind of bunch of companies. I mean, it's a huge number.

I know we're going to do some more kind of case-by-case review. And there's a lot more information that will help in terms of what will guide our vote, but -- including CEO pay ratio and the like. But I guess is there some thought about another approach that might be able to get us to where we can act on these a little bit more maybe quickly and efficiently?

CHIEF INVESTMENT OFFICER ELIOPOULOS: We're prepared to take up this topic now. And, you know, I do think, you know, I've seen -- we had the suggestion last month and we've seen the letter from Mr. Silberstein as well. And I do think it's always attractive to anchor on to a simple report card from an outside vendor and latch onto that as the Holy Grail.

Our approach is much more detailed than that, and takes into consideration a number of factors, in addition to whatever report card grade Glass Lewis or any other proxy solicitor would give, because the fiduciary obligation resides with us, CalPERS, both with this Board and the principles that you adopt, and then as you delegate to staff both the weighing of all of the factors in your Executive Compensation Policy, as well as factors that staff used.

So maybe I'll turn it over to you, Simiso, and Anne and Dan for comments. Simiso, you're going to this up what we actually do when we look through it, and probably some facts and figures about an F grade, a D grade, a C grade, and a B grade, and how even Glass Lewis votes with respect to these grades as well, so...

INVESTMENT DIRECTOR NZIMA: Thank you, Ted. Simiso Nzima, Investment Director, Global Equity. So basically, as Ted indicated really, the fiduciary duty resides with us. We retain the independence of judgment when it comes to these issues. We use multiple sources. Glass Lewis is one of them. We use Glass Lewis, we use ISS, we use Equilar really just to take a look at the -- these compensation plans.

And when you look at the Glass Lewis pay for performance recommendation, for example, the -- even the F rating -- whether, you know, they rate the performance plan as an F, they only recommend voting against that two-thirds of the time. If in using their own model, they don't suddenly recommend voting against those plans.

The same thing with the D recommendation, they only recommend voting against those one-third of the time. And when you look at what we actually do, because we -- we go in. We use the Glass Lewis rating really as a way to quickly sort of identify those which may be, you know, the worst of the worst, and we go in and look for any other features which we don't like in these plans.

And based on our voting record historically, you know, we voted against about 18 percent of comp plans, which granted is not -- is not really a high number. But Glass Lewis at the same time was recommending voting against 16 percent. So even with the old way that we used to look at things, we're voting against -- at a higher level than Glass Lewis recommendation.

And with this new enhancement, we anticipate that, at a minimum -- just looking at the D and F, at a minimum we'd be probably voting at around 27 percent. And then when we look at the C rated comp plans, that's when we'll spend additional, you know, time going through and looking at where they -- it's the quantum, you know, where they're paying a large amount on an absolute basis or peer relative, or whether the performance threshold, the targets, they're not disclosed and so forth, and vote against those plans as well.

So this is really -- you know, it's something which we recognize that there's an opportunity to hold, you know, company executives accountable for performance. And we -- apart from the voting enhancement that we did, what we'd committed to doing this calendar year at least is that we -- we're going out and engaging some compensation experts in terms of trying to see whether there's a systematic way -- a better systematic way of analyzing these things.

Again, we're faced with 10,000 securities --

voting on 10,000 securities, we have to find a systematic way that captures the pay for performance, but the systematic way that actually we have input in developing. That's why we're engaging these compensation experts to say let's talk about this. How can we build something better which we can take even, you know, to management, and the Board and say, here are the facts, can you refute them? This is why we're voting against you.

And more than that, again, in terms of the voting that we do around this area, we won't hold the compensation committee members accountable. So our vote is not just on the -- on the, you know, compensation plan. If we vote against the plan and we find that the following year the compensation committee hasn't really addressed, you know, the poor design of the plan, we're actually voting against compensation committee members, which I don't -- I don't think, you know, Glass Lewis or anyone else does that. So really we're looking at this from multiple angles and holding the compensation committee members accountable for the pay for performance.

And as part of the research that we're doing, we're actually talking to other asset managers and asset owners in terms of what they're actually doing, how they're approaching this area. And interesting, as we're talking to one of the compensation experts last week, they mentioned that they were talking to another large public, you know, fund. And that's a fund we've been communicating with and trying to figure out how -- you know, how to address this in a more systematic way.

So that's something which we really will continue to spend time and hopefully, you know, hold these companies accountable for the pay that they're issuing to management.

COMMITTEE MEMBER YEE: Thank you.

INVESTMENT DIRECTOR NZIMA: I hope that answers your question.

COMMITTEE MEMBER YEE: Yeah.

CHAIRPERSON JONES: Finished?

COMMITTEE MEMBER YEE: Thank you.

CHAIRPERSON JONES: Okay. Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Mr. Chair. First of all, I apologize for raising this at the last item. It really is obviously at this item.

And I really appreciate the last part of the -- your comments particularly about the complexity of doing this, and that you've got to have a system approach to being able to do it. Though, as you can just -- you'll spend full time doing this, as opposed to managing the investments themselves.

That being said, you mentioned about seeking other asset owners. And my understanding is there's fairly significant diversity in terms of how this is approached, and what the actual end result voting has been with other asset owners that are somewhat comparable to us in terms of what their outlook might be. So I'm wondering how do we -- is that just a difference of view? Is it a different structure? What is it that creates this significant diversity between say Minnesota and Florida, and CalPERS in terms of this particular issue? What would you attribute that to?

INVESTMENT DIRECTOR NZIMA: I think probably it could be an issue of, you know, the structure around the voting. Because again, you know, maybe some of the funds just adopt maybe, for example, the Glass Lewis where they would say if it's -- you know, it's rated a C and below, then they actually are going to vote against that. So that's -- that's sort of a different approach.

COMMITTEE MEMBER SLATON: So less nuanced and less look --

INVESTMENT DIRECTOR NZIMA: Exactly.

COMMITTEE MEMBER SLATON: -- at other factors.

INVESTMENT DIRECTOR NZIMA: Exactly. And we want to build -- at least, if we're using a model we want a model that we've had sort of input and understanding in terms of how it's actually built, and a model that looks over the again long term. We talk about, you know, we're long-term investors. And when you look at some of the models out there, they're looking at three years. And three years four us is not long term.

So again, we -- we are looking at this again coming in with trying to match sort of our long-term horizon when we're talking about pay for performance, as opposed to us adopting an off-the-shelf, which may not address some of the nuances that, you know, really underpin this important issue.

COMMITTEE MEMBER SLATON: Okay. Thank you.

CHIEF INVESTMENT OFFICER ELIOPOULOS: And, Mr. Chair, we certainly know Florida and Minnesota well, their CIO as well. We can -- as part of this consultation, we can reach out to them and get a little more flavor as to what they're doing.

CHAIRPERSON JONES: Okay. Thank you. We do have a request to speak -- two requests to speak on this item, 6c. Mr. Al Darby and Mr. Steve Silberstein.

If you will come up to my left and your right, the mics will be on, and you will have three minutes to speak. And the clock will start once you start speaking.

MR. SILBERSTEIN: Thank you, Mr. Chairman and members of the Board. Thank you for allowing me to speak. As you know, I did speak on this last month. The bottom line here is the Board has a fiduciary responsibility to the beneficiaries and to the local governments to not waste money. What's happened with the CEO pay is it's gone totally out of control. It's an expense that is detracting from the returns.

Now, Glass Lewis does not have a fiduciary responsibility. They rate these packages, and they tell you this one is too high. It's not really tied to performance and they give it an F. But they don't have any fiduciary responsibility to vote it one way or another. They -- you do. And what they're telling you in their ratings is a lot of these pay packages the pay is too high, it's going out of control, and it's not really tied to performance. There have been numerous academic studies. Here's one from a Harvard professor, pay without performance, that shows overall there is no tie between performance and pay.

We just had a case here the CEO of Wells Fargo just got a 36 percent pay increase from 12 million a year to almost 18 million. And the performance of Wells Fargo compared to its peers has been terrible. That's what's going on. And unless, you know, you vote against this, you're basically signing your own execution warrant here.

If these trends continue, the pay is going to just go up and up and up, and it's not tied to performance. Now, there are some other pension funds, Minnesota, Florida, the Province of Alberta, European ones that have no problem voting no here. And you need to do that to send a signal that this kind of hand in the till that's been going on in too many companies needs to stop, and that CalPERS is speaking up like some of these other pension funds are doing this. It's not that hard to do.

So unless you're voting like those guys are doing, voting against at least half of these, you're not really doing your job. I am pleased to see that with the changes proposed here, we're going to be voting about a -- against about a quarter of these. That's a big improvement from where we've been, but we need to go further.

So I hope that you will direct the staff to look at this and see if they can get their record up to be among the best practices of other pension funds in this area. Certainly your beneficiaries and your local governments will appreciate this.

Thank you.

CHAIRPERSON JONES: Thank you for your comments.

Mr. Darby.

MR. DARBY: Good afternoon. Mr. Chair, Committee members. RPEA certainly supports these corporate governance provisions that you're putting forth here. But while our RPEA retains its position that ESG and divestiture should take a back seat to equities with superior investment returns, that will move the PERF to 80 percent or better funded status.

RPEA believes that the S part of ESG and/or the Corporate Governance Policy you adopt should encompass income inequality as a much bigger higher profile component. The current employee compensation section in your proposal here is weak on income inequality.

A very recent report indicates that the 2017 tax cut has not translated to the $4,000 to $9,000 average increase in middle class income as it was advertised to do. For a family that gets an income, the average median income is 54 to 60 thousand something in that range. They're not seeing this $4,000 to $9,000 increase. Right now, they've identified only $6.34 of the increase they were supposed to get from this additional tax cut, and corporate tax -- excuse me, corporate income increases and bonuses. Instead, the corporations are busy buying back stock and increasing dividend payouts.

Corporations -- excuse me, CalPERS recently announced that over 60 percent of CalPERS recipients only receive $46,000 or less. Just the other day, it was announced that in Sacramento a two bedroom apartment costs about $2,000 a month. So this is not an adequate income, particularly for those who do not receive Social Security.

This highlights the need for equalization in the middle class income structure. Income inequality should be a major focus of ESG and your corporate governance policy. ESG is a component of the Investment Committee, and this should be part of the overall policy there. Income inequality or the component in the Corporate Governance Policy that you're contemplating right now should in -- should strengthen that section of your corporate policy.

CHAIRPERSON JONES: Mr. Darby, your time is up.

MR. DARBY: Elon Musk just indicated that human capital is more important than they thought it to be. He had use -- he had to use humans to correct the --

CHAIRPERSON JONES: Mr. Darby, your time is up.

MR. DARBY: -- deficiencies of the robots.

Thank you.

CHAIRPERSON JONES: Okay. Thank you.

Okay. Now, we move to Summary of Committee Direction.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Okay. Mr. Chair, as usual, please follow along and make sure we gest all of them.

So starting from the beginning, there's a request from the Treasurer's Office that, you know, at some point in the future for a consultation between CalPERS staff and R.V. Kuhns regarding our 2013 SIP work that was done. And we -- we'll follow up with that.

CHAIRPERSON JONES: Okay.

CHIEF INVESTMENT OFFICER ELIOPOULOS: That was Item 5a.

On 6a, request that -- to provide the Committee with a break down of industry sectors of dual class and no vote companies.

There was direction to include at the next mid-point ALM cycle in -- specifically in the discussion of potential exclusion of dual class to make sure that there is a -- a discussion and analysis of possible exclusion of no vote shares as part of the next ALM process.

I believe there was a discussion around SEC hearing content, but we gave -- that was on the website. So I don't think we're providing anything. I think we'll -- if there's problems with the website, you know, let us know.

CHAIRPERSON JONES: Right.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Moving on to 6b, there's an indication from the Treasurer's Office to have a discussion around diversity at the next meeting. I think the only to-do item there is the suggestion if the

Treasurer's Office could provide something in writing, then we'll circulate it to the whole Board and to staff.

CHAIRPERSON JONES: Sure. Okay.

CHIEF INVESTMENT OFFICER ELIOPOULOS: There was a suggestion for us to come back with potential language tying this -- the new language around sexual harassment to the clawback language. We'll come back with proposed language next month, as well as contemplating and bringing back new language in response to Mr. Costigan's comments around arbitration in the new Sexual Harassment Policy. That's, I think, everything on 6b.

CHAIRPERSON JONES: Yeah.

CHIEF INVESTMENT OFFICER ELIOPOULOS: On 6c, I think the only commitment that we made, and I think it was taken as Board direction, is that as part of the follow-up work that Simiso and the team are doing on executive compensation, I said that we'd reach out to the State of Florida and Minnesota to get some feedback on the specificity.

CHAIRPERSON JONES: Okay. Very good.

Thank you very much.

Okay. We have one request for public comment. Mr. George Linn, if you'll come forward. And you'll have three minutes and you're mic is on. And the clock will start when you start speaking.

MR. LINN: George Linn, President of RPEA.

Thank you, Mr. Chair, and Board members. You know, I kind of hate to be a broken record. And following up on some of the things that Mr. Darby spoke about, I'm concerned about return on investment.

I love ESG. I think that the governance side has a lot of merit to it. You know, let's take a look at our own board and see how we fit. We members seem to have voted three and three when it comes to gender. I don't know about the rest. So I think that maybe that's a consideration when we're having consideration and discussions with those that appoint others.

When it comes to the social issues, you know that I've spoken before, that we need to be always looking at return on investment. Divestiture is only a item for discussion if the return on investment would not be impacted.

Let's take a look at the environmental part. I think that it's great. You know, me -- my wife and I have been very, very much on this page since long before it was popular, recycling and all those other kinds of things. So I'm not against it.

But when we're investing in wind farms, and solar farms, and whatever else that may be environmental, the one thing that is missing from the public announcements is how this fits into our return on investment?

The announcement in November about the wind farm acquisition, I thought was probably a very good thing, and it's a very good long-term thing as a couple of you Board members have mentioned to me, that it's a long term kind of thing. But I'm also concerned that, you know, we're hardly at 70 percent. And so we need to be taking a look at that, and we need to have transparency. If we are investing in something that is not providing the numbers to increase that, then there must be reasons. And so we can provide those reasons and logically convince those that these are the things we need to be doing. But frankly, right now, it's kind in the dark.

I thank you very much for your time.

CHAIRPERSON JONES: Okay. Thank you, Mr. Linn.

Okay. Than concludes the open Investment Committee meeting, and that meeting is adjourned.

And we will convene in closed session when we return to auditorium at 2:15.

(Thereupon California Public Employees' Retirement System, Investment Committee meeting open session adjourned at 1:27 p.m.)

C E R T I F I C A T E  OF  R E P O R T E R

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Investment Committee open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California, and was thereafter transcribed, under my direction, by computer-assisted transcription;

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 21st day of April, 2018.

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